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LAST ISSUE

China

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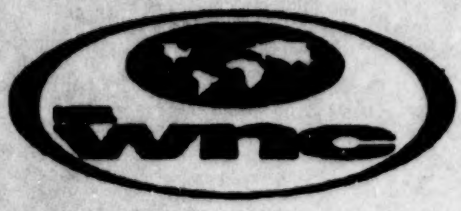
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Daily Report
China

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General

PRC: Spokesman Announces End to Bilingual News Conferences

OW0207102696 Hong Kong AFP in English 0925 GMT 2 Jul 96

[FBIS Transcribed Text] Beijing July 2 (AFP) — The Chinese foreign ministry Tuesday joined a trend towards stamping out colonial influences by saying English would no longer be used in its press conferences from September.

To improve "efficiency" and "because Chinese is one of the working languages of the United Nations", press conferences by the spokesman for the foreign ministry will be in Chinese only from September 1, instead of being bi-lingual, ministry spokesman Cui Tiankai said.

Since 1983, when the ministry began holding regular press conferences for the international media, replies to questions were always given in both Chinese and English.

Tuesday's announcement follows the introduction of a campaign to stamp out "colonial" references and trends.

Last week the trade ministry called on local firms to avoid western influences in their publicity as well as all "vulgar, feudalistic or western sounding names."

Filmmakers have also been strongly advised to avoid putting a western interpretation on films about Chinese history.

PRC: AFP: Ministry Spokesman Denies Hong Kong Blacklist

OW0207103496 Hong Kong AFP in English 0850 GMT 2 Jul 96

[FBIS Transcribed Text] Beijing, July 2 (AFP) — China denied Tuesday it had a blacklist of Hong Kong people barred from entering the country, one day after eight politicians from the territory were turned back at Beijing airport.

"No such blacklist exists," said Foreign Ministry spokesman Cui Tiankai.

"The so-called blacklist is entirely out of the question and entirely a rumour. It is normal for the competent department in charge of exit and entry to have a name list about the passengers entering and exiting the land," he said.

The eight legislators flew to Beijing Monday carrying a 60,000- signature petition protesting against China's decision to scrap the territory's Legislative Council when it regains control of Hong Kong on July 1, 1997.

The group was identified by Chinese police who boarded the plane, confiscated their travel documents and put them on the returning flight to Hong Kong. The eight said they had seen the police carrying a list of about 200 names of Hong Kong people barred from entering China.

"As for the reason why those people were denied entry, they themselves are pretty clear about the reasons," Cui said.

Some 25 Hong Kong and foreign journalists and TV crews waiting at Beijing airport for the politicians were harassed and detained for about 90 minutes by police, who said they did not have permission to film and take photographs.

Chinese police tried to prevent journalists from talking to passengers disembarking from the flight, while photographers and TV crews were pushed outside the arrivals lounge.

"I don't think there is any doubt about the principle that anyone, including correspondents, who are going to conduct activities in foreign countries have to bring with them effective documents and go through certain procedures," Cui said.

Journalists "are free to come over to the mainland to carry out legitimate coverage and interviews and I don't think there is any question in this regard," he added.

PRC: Spokesman: Luo Gan To Lead 'Goodwill Delegation' to DPRK

OW0207101296 Beijing XINHUA in English 0830 GMT 2 Jul 96

[FBIS Transcribed Text] Beijing, July 2 (XINHUA) — At the invitation of the government of the Democratic People's Republic of Korea (DPRK), State Councillor and Secretary-General of the State Council Luo Gan will lead a Chinese goodwill delegation to visit DPRK from July 10 to 13.

This was announced by Chinese Foreign Ministry Spokesman Cui Tiankai at a regular press conference here this afternoon.

According to him, Luo Gan will attend activities to be held there commemorating the 35th anniversary of the signing of the Treaty of Friendship, Cooperation, and Mutual Assistance Between China and the DPRK.

PRC: Envoy to UN Stresses Eradication of Poverty

OW0207003196 Beijing XINHUA in English 2212 GMT 1 Jul 96

[FBIS Transcribed Text] United Nations, July 1 (XINHUA) — A high-ranking Chinese diplomat said on

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Monday that while it is essential for the world organization to strengthen coordination within the system, it is also important to have coordination with the recipient countries.

Chinese Acting Permanent Representative to the United Nations Wang Xuexian made the remarks at the coordination segment of the annual substantive session of the U.N. Economic and Social Council.

"As pointed out by the Secretary-General in his report, many organizations of the U.N. system have participated in poverty eradication activities from different angles and in varying degrees," he said.

"It is therefore entirely necessary to strengthen coordination between various organizations and at various levels to enhance efficiency and ensure that their efforts are not be confined to within the U.N. system," he said.

"But it should be emphasized that coordination between the relevant organizations of the U.N. system and recipient countries is also very important aspect," he said.

"Only by ensuring sound coordination and cooperation in this respect and closely linking the U.N. system activities in the area of poverty eradication with the actual needs and priorities of the recipient countries can the U.N. play a better role in poverty eradication activities and the efficiency and effectiveness of poverty-relief resources and projects be further enhanced." he said.

Ambassador Wang also appealed to the world community to create an international economic environment conducive to the world efforts of eradicating poverty.

"Widespread poverty in the developing countries is a complicated issue and an expression of economic backwardness and underdevelopment," he said. "It is caused, to a large extent, by their unfortunate historical experiences and the unfavorable international economic environment."

"Therefore, poverty should not be viewed in isolation," he said. "It is essential to resolve deep-rooted problems to eliminate the root causes of poverty."

"In this connection, it is necessary to further strengthen international cooperation in this field of development, establish an international economic environment that will facilitate the attainment of development objectives by all countries in the world," he said.

He said that the international community should take effective measures to alleviate debt burdens of the developing countries and provide them with necessary assistance in terms of financial resources and technology so as to bring into play their inherent potentials for development and enhance their ability of eradicating poverty and improving their people's living standards through economic development.

United States & Canada

PRC: Radioactive Metal Reportedly Shipped to Tianjin From U.S.

OW0207021996 Beijing XINHUA in English 0146 GMT 2 Jul 96

[FBIS Transcribed Text] Tianjin, July 2 (XINHUA) — An emergency team has been called in after a consignment of radioactive waste was shipped to China from the United States. The contaminated scrap metal was discovered in north China's biggest port city, Tianjin.

Customs officials in the port discovered that the contaminated scrap iron and steel had been shipped from the US. It follows the arrival in China earlier of large quantities of hazardous waste from the United States, sparking claims from environmentalists that the US was dumping its own unwanted rubbish in developing countries.

Customs officials in Tianjin said they had seized 78.336 tons of radioactive waste iron and steel sent from Houston, Texas. They claimed it could cause pollution to the local environment and threaten the health of local people.

The scrap metal was stacked in seven non-standard containers and reported to Tianjin Customs by the China Materials Recycling Corporation on June 28.

A local customs official said all of the scrap metal registered various levels of radioactivity. One container in particular had a level 30 times above China's state limit of radioactivity.

The radioactive waste could cause serious damage to the local environment, and threaten local people's health, local official said.

Tianjin Customs has formed an emergency work team to handle the waste and carry out further investigations into the shipment.

PRC: CPPCC Official Discusses MFN, Ties With U.S. Legislators

OW0207104496 Beijing XINHUA in English 1000 GMT 2 Jul 96

[FBIS Transcribed Text] Beijing, July 2 (XINHUA) — Qian Zhengying, vice-chairperson of the National Committee of the Chinese People's Political Consultative Conference, has called for healthy and stable Sino-U.S.

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relations, Sino-U.S. economic and trade relations in particular, to benefit both countries.

Qian made the remarks at a meeting here today with Rod Grams, member of the U.S. Senate Energy and Natural resources Committee, the Banking, Housing and Urban Affairs Committee, and Mark Sanford, member of the U.S. House Subcommittee of Asia-Pacific Affairs of the International Relations Committee.

Qian appreciated Grams and Sanford's wise stand to support granting China MFN status, hoping that the guests would know more about China through their current visit and continue to contribute to the development of the relations between the two countries.

The Chinese government and people have attached great importance to relations between the two countries. China and U.S., both as influential countries in the world and permanent members of the UN Security Council, should maintain a friendly relationship, which she said, conforms to the interests of the people of both countries, and is conducive to peace, stability and prosperity in Asia and the rest of the world.

There exists a great potential for the development of economic and trade relations between the two countries, she said, adding that their continuous development requires healthy and stable Sino-U.S. relations.

Grams said that the United States and China are interdependent economically and cooperation benefits both sides.

The U.S. guests are here in China at the invitation of the Chinese People's Institute of Foreign Affairs.

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Political & Social

PRC: Fujian Launches IPR Protection Campaign

OW2806072996 Beijing XINHUA in English 0653 GMT 28 Jun 96

[FBIS Transcribed Text] Fuzhou, June 28 (XINHUA) — Inspectors have closed more than 40 factories and shops in Fujian Province for the illicit production and selling of video and visual products over the past year.

The campaign, jointly launched by the province's departments of culture, publishing, public security, radio, film and television, is designed to effectively eliminate the sources of pirated video and audio products.

A series of intellectual property rights (IPR) related rules and regulations have been approved in the province, to provide a more complete legal system for the province's law-enforcement departments.

Police sources claim that they have confiscated a total of 300,000 pirated video and audio cassettes, as well as CDs.

In 1995, the provincial administration for industry and commerce dealt with some 2,000 IPR infringement cases, with imposed compensation reaching 400,000 yuan.

PRC: Xinjiang Rectifies Audio-Visual Market

OW0207003096 Urumqi XINJIANG RIBAO in Chinese 14 Jun 96 p 1

[By reporter Gao Yanming (7559 1693 2429)]

[FBIS Translated Text] Carrying out guidelines adopted by the seventh national teleconference on "eliminating pornography and cracking down on piracy" and the autonomous regional work conference on stability, the autonomous regional Cultural Market Management Leading Group and cultural office have decided to centrally rectify the audio-visual market in June, July, and August.

The move is to reexamine and recheck units engaging in wholesaling, retailing, renting, or showing audio-visual products; and to standardize the use of permits for various audio-visual products printed by the Ministry of Culture, in a bid to quantitatively limit the size of these units. Those who fail to meet conditions will be required to comply within a stipulated period, and firm action will be taken against serious law violations. All smuggled, pirated, duplicated, and illegal audio- visual products will be seized and destroyed, with those responsible facing serious punishment. Those found to be engaging in trading in reactionary and obscene audio-visual products will be handed over to public security and judicial organs. In addition, action will be taken to step up transportation checks and to eradicate illicit points involved in producing and marketing pornographic materials and various reactionary and obscene audio-visual products.

All audio-visual retail businesses in local small commodity wholesale markets and audio-visual wholesale businesses in electrical appliance and electronic and scientific and technological markets must stop doing business before 30 June in order to apply for "audio-visual products retail business permits" and other relevant certificates.

PRC: Jiang Seeks Support for Chairmanship

HK0207072196 Hong Kong SOUTH CHINA SUNDAY MORNING POST in English 30 Jun 96 p 1

[By Willy Wo-Lap Lam]

[PTS Transcribed Text for FBIS] Chinese President Jiang Zemin is clearing opposition to his efforts to reinstate the position of Communist Party chairman.

Mr Jiang, also party General Secretary, wants the chairmanship for himself to consolidate power in the post Deng Xiaoping era, said a source close to Mr Jiang's personal office.

"Jiang Zemin hopes the position of party chairman, abolished after the death of Chairman Mao Zedong, will help him command more respect from sectors including regional cadres," the source said.

He added that the position was expected to be reinstated at the party congress next year.

The source said Mr Jiang had made headway in neutralising the opposition of political foes, including National People's Congress (NPC) Chairman Qiao Shi, and Chinese People's Political Consultative Conference (CPPCC) Chairman Li Ruihuan.

Mr Qiao and Mr Li, as well as several party veterans, have claimed that the revival of the party chairmanship is tantamount to the re-assertion of Maoist values.

To pacify Mr Qiao, 72, Mr Jiang has offered him the party vice- chairmanship, also expected to be revived next year.

Mr Li, 62, is being given the opportunity to succeed Mr Qiao, 72, as parliamentary chief.

Political analysts said that while Mr Li was usually seen as Mr Qiao's ally, the chance to become NPC chief might persuade the former to side with Mr Jiang on this issue.

It is understood Mr Qiao is objecting because the position of party vice-chairman is largely ceremonial.

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Mr Qiao has the support of respected elders, including his predecessor as NPC chairman Wan Li, and former president Yang Shangkun.

But Mr Jiang needs only a simple majority from the seven-member Politburo Standing Committee to have his proposal approved.

The post of party general secretary, which will have much less power than before, is likely to go to the youngest member of the Politburo Standing Committee, Hu Jintao, 54.

Mr Hu, whose portfolio is organisation, heads the highlevel Leading Group on Personnel Arrangements for the 15th Congress next year.

Premier Li Peng, who has become Mr Jiang's staunchest ally, will also be rewarded with a party vice chairmanship.

Political analysts in Beijing said members of Mr Jiang's personal office had studied how party leaders in its 75 year history had retained, expanded or lost power.

They said the President would continue to try to expand his clout until he had powers similar to those enjoyed by Chairman Mao at the height of his career.

PRC: Jiang Commissions Newspaper Articles To Underscore Position

HK0207062096 Hong Kong SOUTH CHINA MORNING POST in English 2 Jul 96 p 1

[By Willy Wo-Lap Lam]

[PTS Transcribed Text for FBIS] Chinese President Jiang Zemin has commissioned up to 10 major articles in national newspapers to underscore his position as a Deng Xiaoping-like helmsman.

The pieces are being supervised by the Propaganda Department, the party Central Committee's Policy Research Office and Mr Jiang's office.

Sources close to these units said the articles would cleave to the line that Mr Jiang was "neither leftist nor rightist" but the leader China needed most.

Due to appear soon, the articles touch several topics, including: part of the population getting rich first; the income gap between east and west China; the status of workers; agriculture and the problem of farmers flocking to the cities; the political fallout of market reforms- the future of state-owned enterprises and the pros and cons of foreign investment.

Also planned are pieces on the construction of "material and spiritual civilisations" and the good and bad effects of Western influence.

"Jiang wants to please factions from both the left and right," a source said. "He wants to assure supporters of classic socialism, such as workers in state factories, that Beijing will not go after privatisation.

"The President has strongly hinted he will not commit Deng's mistakes of neglecting spiritual civilisation or ideological control."

The source added that the party General Secretary also wanted to counter criticism that he was reviving quasi-Maoist values such as "talking about empty politics".

Some of the pieces will stress his commitment to Deng-style reforms, while avoiding widening the gulf between rich and poor.

Others will boost his "can do" credentials by offering solutions to problems such as reviving state-owned enterprises.

Meanwhile, leftists, or Maoists, have continued to denigrate continuing economic reform as a "tail of capitalism".

In an article in the journal Zhenli De Zhuiqiu, Jiang Ming criticised efforts by the city of Zhucheng in Shandong province to restructure state-owned enterprises by converting them into "shareholding co-operatives".

Under the scheme, the assets of the enterprises have been "sold" to workers in the form of shares.

The experiment was approved by Vice-Premier Zhu Rongji when he toured Zhucheng in April.

But Mr Jiang Ming claims the restructured enterprises are "capitalist" and had undergone a form of privatisation.

China should never "use capitalism to counter socialism", he said.

PRC: Report on Leaders' Activities 4-27 Jun

OW2806122296

[FBIS Summary] PRC media monitored by Okinawa Bureau from 4 to 27 June carried the following reports on PRC Central leadership activities. The source is noted in parentheses after each report. **Liu Huaqing, Zhang Zhen Inscribe for Campaign** — The coverage team "In Search of the Red Ribbon on the Earth" sent by RENMIN RIBAO, XINHUA, and the Central Television Station has successfully completed its mission in Jiangxi. The coverage activity was approved by the Central Military Commission as one of the important activities for China to mark the 60th anniversary of the Long March. Provincial military leaders Feng Jinmao and Zheng Shichao bid farewell to coverage team

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members in Nanchang on 4 June. Liu Huaqing and Zhang Zhen wrote inscriptions for the activity. (Nanchang JIANGXI RIBAO in Chinese 11 Jun 96 p 1) **Liu Huaqing Writes Preface to Collection of Reports** — The "Collection of Reportage on China's Science and Technology for National Defense," whose preface was written by Liu Huaqing, Standing Committee member of the Political Bureau of the CPC Central Committee and vice chairman of the Central Military Commission, was recently published by the Central Party School Publishing House. The collection includes lengthy reports on China's nuclear weapons testing, rocket satellite launching, conventional weapons testing, space instrumentation and command nuclear submarines, aerodynamic research testing, and training of qualified scientific and technical personnel for national defense, with a lot of historical materials revealed for the first time. (Beijing XINHUA Domestic Service in Chinese 0426 GMT 21 Jun 96) **Jiang Zemin Writes Name of TV Series** — Jiang Zemin, general secretary of the CPC Central Committee and president of the state, wrote the name of a full-length television movie "Great Changes of Hong Kong," which depicts the history of Hong Kong over the past 100 years or so from the Opium War to the return of Hong Kong to the motherland. The movie includes lots of important historical documents and materials; interviews with several hundred persons, including Qian Qichen, Lu Ping, Hong Kong industrial magnates Ann Tse-kai, Li Ka-shing, and Henry Fok Ying-tung, former British Prime Minister Margaret Thatcher; and works written by mainland, Hong Kong, and British experts in Hong Kong history and Sino-British relations. (Beijing XINHUA Domestic Service in Chinese 1127 GMT 21 Jun 96) **Zou Jiahua Addresses Land Management Conference** — At the national conference of land management department and bureau directors, which ended 22 June, State Council Vice Premier Zou Jiahua talked about the grim situation in cultivated land protection facing the nation and urged governments at all levels to work hard to achieve good results in protecting cultivated land. At the conference, Zou Jiahua and other leading comrades issued certificates of honor to 62 "advance collectives of national land management departments" and 32 advanced individuals. (Beijing XINHUA Domestic Service in Chinese 1315 GMT 21 Jun 96)

Song Jian Inspects State Seismological Bureau — While inspecting the work of the State Seismological Bureau on 21 June, Song Jian, state councillor and concurrently minister of State Science and Technology Commission, urged seismological departments to apply latest scientific and technological research achievements to the construction of seismological station networks and complete the digitalization of seismological station networks and modernization of equipment, thus enhancing China's detectability of earthquakes. (Beijing XINHUA Domestic Service in Chinese 1426 GMT 21 Jun 96)

Qiao Shi Inscribes for RENMIN JIANCHA Anniversary — Legal circles in Beijing held a discussion meeting in Beijing on 25 June to mark the 40th publication anniversary of RENMIN JIANCHA [People's Procuratorate]. Comrade Qiao Shi wrote an inscription on the occasion, which read: "Vigorously Strengthen the Building of the Socialist Legal System, Firmly Foster and Safeguard the Authority of the State Legal System." Wang Hanbin, Ren Jianxin, and others also wrote inscriptions on the occasion. Zhang Siqing, procurator general of the Supreme People's Procuratorate, spoke at the meeting. (Beijing XINHUA Domestic Service in Chinese 0946 GMT 25 Jun 96)

Jiang Zemin Writes Name of Expressway — The 144-km Taiyuan-Jiuguan Expressway was completed two years and three months ahead of schedule and opened to traffic on 25 June. General Secretary Jiang Zemin wrote the name of the expressway and Premier Li Peng wrote an inscription for it, which reads: "Pool Our Wisdom and Strength to Build Expressways, Revitalize Shanxi's Economy With Redoubled Effort." Zou Jiahua, member of the Political Bureau of the CPC Central Committee and vice premier of the State Council spoke at the opening ceremony for the expressway on behalf of the State Council and Premier Li Peng. (Beijing Central People's Radio in Mandarin 1030 GMT 25 Jun 96)

Rong Yiren Meets Football Team — Rong Yiren, vice president of the state and honorary president of the Football Association of China, had a cordial meeting with the Chinese Women Football Team, which was to participate in the 26th Olympic Games and hoped they will perform well at the games with the indomitable spirit and win honor for the country. Present at the meeting included Wu Shaozu, minister of the State Physical Culture and Sports Commission and head of the Chinese delegation to the Olympiad. (Beijing XINHUA Domestic Service in Chinese 0642 GMT 26 Jun 96)

Qian Qichen Inscribes for Photo Album — A first-publication ceremony for the photo album entitled "Affections for the Danube," which reflects the work and life of the Chinese residing in Hungary, was held in Budapest on 26 June. Hungarian President Arpad Goncz, Gyula Horn, prime minister of the Hungarian government, and Qian Qichen, vice premier of the Chinese State Council and concurrently foreign minister, wrote inscriptions for the album. President Goncz's inscription reads: "This photo album will help the Chinese enter the Hungarian mainstream society

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as quickly as possible." (Beijing XINHUA Domestic Service in Chinese 0309 GMT 27 Jun 96)

Book on CPC, Socialism With Chinese Characteristics — A meeting was held in Beijing on 27 June to mark the 75th CPC founding anniversary and the publication of a book entitled "Socialism With Chinese Characteristics and the Communist Party of China," which was compiled by the Party Building Research Institute under the Central Propaganda Department and whose name was written by Song Ping. Comrade Song Ping addressed the meeting. The book adheres to the principle of combining theory with practice, uses the method of unity between history and logic to summarize the basic experience of the party in leading the building of socialism with Chinese characteristics since the drive of reform and opening up to the outside world was launched, and answers the present hot-point questions with which cadres and party members are concerned. (Beijing XINHUA Domestic Service in Chinese 1210 GMT 27 Jun 96)

Li Peng Calls on Embassy Personnel in SRV — Comrade Li Peng, premier of the State Council and Standing Committee member of the Political Bureau of the CPC Central Committee, who led a CPC delegation to the Eighth National Congress of the Vietnamese Communist Party, arrived at the Chinese Embassy to Vietnam on the evening of 27 June; paid a cordial visit to embassy personnel and the representatives of Chinese institutions in Vietnam; and had a group photo taken to mark the occasion. Those accompanying Li Peng to the embassy included delegation members Wen Jiabao and Li Shuzheng. (Beijing XINHUA domestic Service in Chinese 1710 GMT 27 Jun 96)

PRC: Interview with Premier Li Peng

MS2706101296 London FINANCIAL TIMES in English 27 Jun 96

[Interview with China's prime minister, Li Peng, by Tony Walker, Peter Montagnon and John Ridding; date and place not given]

[FBIS Transcribed Text]

Economic reform

A — "We think that the market plays a fundamental role in the allocation of resources. In China, a socialist country, this role can only be brought into full play under the government's macro- regulation and control. The Chinese government will resort to multiple means to exercise macro-control over the economy, such as through the plan, through fiscal policies, and through monetary policy."

Economic growth and monetary policy

A — "We practise a moderately tight monetary policy and this will remain unchanged. However, we will somewhat ease controls over working capital for the production of marketable goods."

Entry to the World Trade Organisation

A — "China maintains that if it is not able to join the WTO, that is of course a loss for it; but if the WTO rejects China,— then that will also be a loss for the WTO. However, I cannot see the prospect of China's trade with other countries being affected if it is not a member of the WTO because China itself is a huge market. That is the reality. When I was in France, we signed the contract with Airbus to buy 33 Airbus planes; we did not do it through the WTO."

Preferential tax policies for special economic zones

A — "Our basic policy towards the state-owned enterprises in China remains unchanged Corporate income tax for the foreign- invested enterprises is 15 per cent. I think this is fairly low compared with other countries in the world.

Foreign investment

A — "We want more investment in infrastructure; we also welcome co-operation in the technical transformation of small and medium- sized enterprises in light industries. In the services sector we are also ready to co-operate. But in the area of banks and insurance companies we are not ready to open on a large scale.

Relations with the US

A — "The United States has tried various means to interfere in China's internal affairs. The core issue in Sino-US relations is the question of Taiwan. If the United States can observe in deed not just in word the three Sino-US joint communiques then it will be possible to further improve and develop relations between the two countries."

Participation in the Three Gorges hydro-power project

A — "China's biggest project is the Three Gorges project. But the EximBank of the US on the instruction of its government has said it will not pronde loans to American companies that want to bid on the project. This policy of the United States actually kills the opportunities of American companies to participate. But it will lead to no loss to China because it can obtain the same technology from the Europeans or from the Russians."

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Relations with Europe

A — "The Europeans have more favourable terms, more lenient terms. They do not attach political strings to cooperation with China unlike the Americans who arbitrarily resort to the threat of sanctions or the use of sanctions. This is the reason that has prompted China to enter into close co-operation with the Europeans. If the Europeans adopt more co-operation with China — not just in economic areas but also in political and other areas then I believe they will get more orders from China."

Policy towards Taiwan

A — "So long as the Taiwan authorities can abandon pursuit of 'two Chinas' and can return to the position of 'one China' not just in word, but also in deed, then cross-straits relations will be improved and strengthened in a peaceful manner."

Resumption of sovereignty over Hong Kong

A — "There are less than 400 days before Hong Kong's sovereignty will return to China. The die is cast. This also accords with the aspirations of the people. The basic policy of China is to ensure a stable transition and smooth transfer of government in Hong Kong. I can say that for all Hong Kong people — for each and every Hong Kong person — so long as he or she loves Hong Kong, loves the motherland, abides by the Basic Law, he or she can have a role to play in the future of Hong Kong."

Political reform

A — "Apart from our economic reform we will continue to promote our political reform. The purpose of political re-structuring is to make the government more efficient — and to enable the people to play a bigger role to serve as masters of the state so that the capacities for developing the country can be mobilised. Some people in the west believe that along with economic development China will evolve more into a western democracy, but we think it is not possible here.

PRC: Li Peng, Chi Haotian Hold Talks With Pakistan's Army Chief

BK3006142796 Islamabad PTV Television Network in English 1300 GMT 30 Jun 96

[FBIS Transcribed Text] The chief of army staff, General Jehangir Karamat, called on Chinese Premier Li Peng. Premier Li Peng told General Jehangir Karamat that Sino-Pakistan friendly relations, which have been growing smoothly over the past few decades, will remain unchanged irrespective of the changes in the international situation. General Karamat said the government and the people of Pakistan attach great importance to friendly relations with China and always count it as a trustworthy friend.

The chief of army staff also called on the Chinese defense minister, General Chi Haotian. During the meeting matters of professional importance were discussed.

PRC: 'Critical' Third Phase of Crime Crackdown To Begin

OW3006134496 Beijing XINHUA in English 1330 GMT 30 Jun 96

[FBIS Transcribed Text] Chengde, June 30 (XINHUA) — China's ongoing campaign to crack down on crime has so far yielded better results than expected, a high-ranking party official said today.

Social stability has been maintained, and the campaign has drawn wide support in China and enjoyed favorable comments from the international community, said Ren Jianxin, a member of the Secretariat of the Chinese Communist Party's (CPC) Central Committee and secretary of the Political Science and Law Committee under the CPC Central Committee.

Ren, who is also director of the Central Commission for Comprehensive Management of Public Security, made the remark at this north China resort during a meeting that focused on ways to continue the campaign to increase policing of crimes, and also the comprehensive management of public safety.

Since the campaign began on April 28, public security departments nationwide have dealt with several major criminal cases, captured many criminals, including some fugitives, eradicated some criminal gangs, closed down entertainment businesses involved in illegal activities, and confiscated a large number of illegal firearms.

China soon will start the third phase of the crime campaign, which is critical to the success of the entire campaign, Ren told those attending the meeting. He asked party committees and governments at all levels to increase their leadership involvement in the campaign so as to prevent it from having a weak finish in spite of a successful beginning.

He said the campaign's goals include:

— Making greater progress in cracking major cases, pursuing fugitives and eliminating gangs;

— Markedly improving public security in places troubled by more crimes than others;

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— Eradicating major social security problems and offensive social phenomena;

— Increasing the people's sense of security and their initiative toward fighting criminals.

Combating crime is a long-term and arduous task, and that nationwide anti-crime campaigns such as the present one will be launched periodically in the future, the official said.

***PRC: Deputy Procurator General on Amended Criminal Procedure Law**

96CM0375A Beijing FAZHI RIBAO in Chinese 4 Apr 96 p 7

[Article by Deputy Prosecutor General Zhang Qiong (1728 4498): "Key Developments and Advances in Our Criminal Legal System"]

[FBIS Translated Text] The "Resolution on Amending the PRC Criminal Procedural Law'" (abbreviated hereinafter as the "Amendment Resolution"), which has been examined and approved by the Fourth Session of the Eighth NPC [National People's Congress], is the first quite systematic amendment of our criminal procedural law in 16 years.

This amendment observes the principles provided in our constitution, adapting to the needs of reform, opening, and establishing a socialist market economy, and implementing the proposal of the Third Plenary Session of the 14th CPC Central Committee to further improve our criminal law, by promptly amending and abolishing legislation unsuited to our socialist market economy to meet the need for integrating reform and opening with our legal system. Grounded in fully affirming the basic principles and responsibilities of our 1979 criminal procedural law and, in line with a spirit of pragmatism, it sums up our last 16 years of judicial work experience, while drawing on and assimilating valuable means of overseas criminal procedural legislation. The "Amendment Resolution" makes a series of crucial amendments of and additions to criminal suits in all links such as public security organs, prosecution organs, and people's courts, increasing our criminal procedural law from 164 to 225 articles, and making 110 changes. It is a key indication of the development, progress, and improvement of China's criminal procedural institutions, being a crucial step oriented toward the 21st century, and establishing a legal system suited to our socialist market economy, to make our criminal legal system more scientific and democratic.

This amendment's substance is characterized as follows:

I. It ensures more effective investigation and punishment of crime. The "Amendment Resolution" acts in line with judicial practice, suitably easing the terms for making arrests, by providing that "when the evidence proves that a crime has been committed, where the offender can be sentenced to punishment of more than a set term of imprisonment, methods such as release on bail awaiting trial and monitoring of the residence are allowed and, when that is not enough to prevent danger to society and an arrest is necessary, the arrest should be made in accordance with the law." Criminal suspects of unclear status who do not give their real names and addresses, or major suspects in cases of flight, recidivism, and gang crime, can be arrested first. As to such criminal suspects of unclear status who do not give their real names and addresses, their detention term will start on the day their status is ascertained. When the fact of crime is clear and the evidence is reliable and full, suspects can also be turned over to the people's procuratorate [prosecution organ] for investigation and prosecution under the name that they reported. During the course of an investigation, when it is discovered that a criminal suspect has been involved in another major crime, the term of detention will be recalculated starting on the day of the discovery. As to criminal suspects who might be sentenced to corporal punishment of over 10 years imprisonment, where investigations cannot be completed by the time the terms extended by provision are up, the terms can be extended another two months upon approval of or decision by provincial, autonomous regional, or municipal people's prosecution organs. To help in the investigation of case details and the pursuit and seizure of stolen money and goods, it is additionally provided that public security and people's prosecution organs can inquire about and freeze per provision the deposits and remittances of criminal suspects. It is provided that the investigations of cases received directly by prosecution organs will be subject to the provisions of Part 2, Section 2 of the Criminal Procedural Law, which grants prosecution organs the detention decisionmaking authority. As all of these provisions have fully considered the needs of judicial practice, they will contribute to the prompt and effective fight against crime.

II. It better protects the legal rights of criminal suspects and defendants. 1) To fully implement the constitutionally provided principle that the accused has the right to defense, to fulfill China's obligations under the pertinent international treaties that we have entered into and, in line with the legislative precedents of many countries, the "Amendment Resolution" provides that from the first time that suspects are interrogated or have coercive steps taken against them, they have the right to engage lawyers to provide legal assistance. Starting on the day when cases are submitted for investigation and prosecution, criminal suspects have the right to hire

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counsel, with defendants in actions initiated by injured parties without the participation of the public prosecutor having the right to hire counsel at any time. In cases where the sentence might be the death penalty, when the accused has not engaged counsel, the people's courts should designate lawyers to assume the legal aid committment of providing a defense. 2) It provides that no one may be certified as being guilty of having committed a crime without a trial in a people's court. 3) In line with the spirit of suspects being assumed innocent until proven guilty, it provides that when there is insufficient evidence and the accused cannot be held to be guilty, the people's courts should hand down verdicts that the charges against the accused are unfounded and they are innocent. 4) It provides that detained criminal suspects or defendants have the right to apply for release on bail awaiting trial. 5) From the high plane of legal principles, it makes more scientific and tighter provisions on certain links of former legal procedures in criminal suits, which are directed at resolving the phenomena in judicial practice of lax law enforcement and covert infringement on the legitimate rights and interests of criminal suspects and defendants, stopping up loopholes for evading the law. The "Amendment Resolution" abolishes the acceptance for investigation that was regarded as an administrative coercive step but was widely used in criminal suits, which involved long detentions without investigation and oversight by other judicial organs, bringing its substance in the fight against crime into the sphere of criminal detention. It clarifies that the site of residence monitoring is the dwelling [home] of the criminal suspect or defendant, correcting the past method that existed in practice of using residence monitoring for covert detention [jailing]. It provides that a single subpoena or arrest summons may not exceed 12 hours, clearly forbidding covert detention through continuous subpoenas or arrest summons. It sets maximum time limits for release on bail awaiting trial and residence monitoring. It restricts the frequency of returning cases for supplementary investigation, to prevent the phenemona of covert extension of detention times and mutual shifting of responsibility, wrangling, and long delay and indecision.

III. It better protects the legal rights of victims. [The legal rights of] victims are directly infringed on by crime. As to the modern pursuit and prosecution of crime in all countries, while some use the state prosecution method, in which public prosecutions are monopolized by public prosecutors, and others use a combination of state prosecution with private lawsuits, no matter what method is used, the developing trend in the legal system is that along with fully ensuring the legal rights of defendants, attention is also being paid to better protecting the legal rights of victims. China's amended criminal procedural law also makes a priority of fully ensuring the legal rights of victims, raising the legal status of victims, providing that victims are one of the concerned parties in the litigation, and granting victims the rights to apply to avoid [meetings with the accused, or for avoidance rights] and to engage legal representatives. Meanwhile, it specifically and systematically provides for the legal rights of victims throughout the proceedings. 1) The right to file charges. It adds provisions listing specific funds for victims to report cases or bring charges. 2) The right to challenge decisions to not investigate and prosecute cases. When public security organs should but do not investigate and prosecute cases, victims have the right to complain to people's prosecution organs [the people's procuratorate]. 3) The right to challenge the handling of evidence or cases in the course of investigation and prosecution. The evidence used to reach the conclusion in the investigation process should be reported to the victim, with people's prosecution organs listening to victims' objections when investigating cases. 4) The right to appeal decisions not to prosecute. When victims disagree with decisions not to prosecute, they can appeal to the next higher level prosecution organ. 5) The right to prosecute [bring suits] directly. Victims with evidence proving that public security or people's prosecution [police or prosecution] organs should have but did not investigate and affix the criminal liability for infringements on their persons or property, have the right to take direct [legal] action in people's courts. 6) The right to participate in court trials. In court investigations, victims have the rights to state their views on the crimes charged in the indictment, to question defendants, witnesses, and judges, to express their views on [object to, challenge] material evidence produced in court, witness statement notes not produced in court, judges' judgment conclusions, investigation notes, and other evidentiary documents, to apply [ask] for new witnesses to be notified to appear in court and to produce new material evidence, to apply for reappraisals of investigations, to challenge evidence and case details, and to debate with the defendant. 7) The right to lodge judicial complaints [apply for reversals]. When victims disagree with original judgments, they have the right to apply for reversals to people's prosecution organs. 8) The right to appeal in-force judgments. When legally effective verdicts and rulings are certified to be wrong, victims have the right to appeal.

IV. It reinforces the division of power, intensifying outside restraint. 1) The "Amendment Resolution" emphatically distinguishes the legal functions performed by the various legal parties, bringing their respective functions into full play. a) Based on the respective functions of public security and prosecution organs, it suitably adjusts the direct jurisdiction of prosecution organs in investigating cases. b) It eliminates the provision that

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higher level courts can transfer cases under their jurisdiction to lower level people's courts for trial. As to the relations between the collegiate bench (of judges, or of a judge and people's assessors) and the judicial committee, it clarifies the responsibility and jurisdiction of the collegiate bench, providing that once the collegiate bench holds court, tries a case, and appraises it, it should pronounce a verdict and, only in doubtful, complex, and crucial cases where it finds it hard to reach a decision, should it submit them for decision by the court president or refer them to the judicial committee for discussion and decision. In court trials, it distinguishes the judicial from the prosecution function, emphasizing that the initiative of both the prosecutor and the defender [defense counsel] be brought into full play, with the prosecutor fully performing the duties of charging the crime, confirming [proving] the crime, and supporting the prosecution. 2) It intensifies outside restraint. For instance, the "Amendment Resolution" provides that when the people's prosecution organ does not approve an arrest, it should explain its grounds. When those not prosecuted need administrative punishment, disciplinary sanctions, or to have their illegal gains confiscated, the people's prosecution organ should present its views, turning the case over for disposition to the pertinent responsible institution, which should promptly notify the people's prosecution organ of its disposition outcome. When investigators, prosecutors, or judges privately [secretly, without permission] meet with litigants and their agents or accept gifts from litigants and their agents, litigants and their legal representatives have the right to demand their removal. When criminal suspects, defendants, their legal representatives, or close relatives, or the lawyers and defense counsels of criminal suspects and defendants, find that people's courts, people's prosecution organs, or public security organs have taken coercive steps exceeding their legal limits, they have the right to demand that such coercive steps be terminated. People's courts, people's prosecution organs, or public security organs that have taken coercive steps against criminal suspects and defendants exceeding their legal limits should free the concerned defendants, dismiss their bail and residence monitoring, or change their coercive steps in accordance with the law.

V. As to procedural design, it emphasizes the mutual correlation, dovetailing, and coordination of rights with duties, illegal behavior with legal responsibility, and prohibitive provisions with punishment results, to tighten legal procedures. The "Amendment Resolution" provides that people's courts, people's prosecution organs, and public security organs can act in line with case circumstances to release criminal suspects and defendants on bail awaiting trial, while detained criminal suspects, defendants, and their legal representatives and close relatives have the right to ask for release on bail awaiting trial. Criminal suspects and defendants who violate their bail provisions will have their bail confiscated and, based on circumstances, be ordered to sign a statement of repentence, put up bail again, name a bondsman, or be subject to residence monitoring and arrest. Bail bondsmen who violate their legal commitments will be fined, with the criminal liability being investigated and affixed in accordance with law for cases that constitute crime. As to defense lawyers or other counsel taking part in legal proceedings, it provides for all of their legal rights, as well as for forbidden behavior that interferes with legal proceedings and the legal liability that should be assumed for violating legal provisions. As to the personal and property safety of witnesses and their close relatives, it provides the obligation of judicial organs to protect, as well as the legal liability assumed for threatening, insulting, beating up, or taking revenge against witnesses.

VI. It clarifies the legal oversight status and role of prosecution organs, intensifying oversight force and effectiveness. 1) the "Amendment Resolution" provides that legal oversight of criminal proceedings by prosecution organs according to law is a basic principle, emphasizing the oversight status of prosecution organs, which means that such oversight runs through the whole course of criminal proceedings. 2) The "Amendment Resolution" not only provides for additional oversight by prosecution organs in procedural links or actions such as investigation and prosecution, reviews, and temporary beyond-surveillance enforcement, but also clearly provides for the effectiveness of such oversight [surveillance], so that the oversight role is performed fully and implemented in practice. For instance, when a prosecution organ holds that the grounds of a public security organ for not investigating and prosecuting a case are unfounded and notify the public security organ to place the case on file for investigation and prosecution, the public security organ should do so. When a people's prosecution organ acts in line with judicial oversight procedures to lodge a judicial complaint, the people's court receiving the complaint should form a collegiate bench to review the case and, when the original verdict's facts are unclear or evidence insufficient, can order a lower court to retry the case, and to do so within three to six months. When the prosecution organ holds that the temporary beyond-oversight enforcement is wrong, and presents a written challenge, the organ that approved the beyond-jail enforcement should immediately reevaluate the decision. When a people's prosecution organ holds that a sentence commutation and release is wrong and presents a written challenge to right it, the people's court should reform a collegiate bench within a month

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to review it, making a final judgment in accordance with law.

This amendment to our criminal procedural law was closely coordinated with our prosecution work. For instance, as to the change in arrest terms, adjustment of jurisdiction, expansion of nonprosecution, advance involvement by lawyers, strict provisions on case-handling terms, reform of court trial form, and tightening of the legal oversight function, all of these are crucial amendments and supplements to our 1979 criminal procedural law, bringing major changes to our prosecution work system and style, which have objectively produced certain difficulties and pressures. For instance, as to the easing of arrest terms, since some of the former targets of the process of acceptance for trial have had to be brought into the sphere of arrests, our work volume in investigating and approving arrests is larger. Meanwhile, the "Amendment Resolution" provides that the oversight of the filing of cases by public security organs for investigation and prosecution is a legally institutionalized job of prosecution organs, that in the investigation stage, it is necessary to ensure both that lawyers can perform their duties according to law and that investigation and evidence-gathering go smoothly, and that in the investigation and prosecution stage, it is necessary to promptly review papers, becoming familiar with case details, and verifying and supplementing evidence, while dealing well with the relations of defense lawyers and other defense counsel to the legal representatives of victims.

In short, as to our prosecution organs since the amendment of our criminal procedural law, the work volume is larger, the duties are heavier, and the enforcement demands are higher. And as our prosecution organs are our state's legal oversight organs, they have to not only act strictly in line with the criminal procedural law themselves, but also oversee strict law enforcement by other organs, to ensure the uniform and correct application of the criminal procedural law. So their law enforcement has to be stricter, more serious, more impartial, and tighter.

Strictly enforcing the new criminal procedural law will mean first changing and improving our enforcement views. The conversion of our concepts will have a direct restraining impact on our system establishment and implementation. Without more advanced ideas, we will be unable to establish and produce a scientific and democratic legal system. And even with our new procedural legal system established, unless its enforcers have undergone this conversion of views, to be equipped with a new psychological endurance, it will be hard to realize the aims and guiding ideology of our criminal procedural law, with our new criminal legal system unable to be conscientiously implemented and enforced, and strict law enforcement also hard to turn into a voluntary action. So the conversion of law enforcement views is a prerequisite for strict law enforcement. As to prosecutors, it means establishing democratic legal views combining crackdown with protection, taking a stand for fair, impartial, and open law enforcement, setting an example in strict enforcement of the procedural law, having a better awareness of efficiency, and accepting that the overseers also need to be subject to restraints.

To strictly enforce the criminal procedural law, we need to adapt our prosecution work to the change brought by its amendment, adapting to the development of our legal system. In our current study and implementation of the new criminal procedural law, we need to emphasize study of the following issues:

I. Ways to improve our investigations. 1) Our investigation work needs to make full use of the means granted by the amended criminal procedural law, using them promptly and effectively, to raise our investigation and evidence collection efficiency. We need to strictly observe the legally set case-handling terms, not substituting arrest for investigation. In cases where terms have expired, we need to deal with them based on circumstances. In certain cases where some criminal activity is really unclear, we do not necessarily have to deal with them only after all has been clarified. Rather, we can turn them over for prosecution once the clear crimes have been investigated and preexamined, instead of leaving such cases long unsettled. In some cases, we can use the method of release on bail awaiting trial with residence monitoring. 2) Before the first interrogation of a defendant, we need to make meticulous preparations, clarifying which issues need to be cleared up or verified through interrogation, and formulating a thorough, detailed, and specific interrogation strategy and contingency plan, instead of breaking a case with the tired old tactic of continuous subpoenas of the defendant. Meanwhile, as the criminal procedural law provides that after a criminal suspect is first interrogated, he has the right to hire a lawyer to provide legal aid, we need to pay more attention to the principle of stressing proof and investigation instead of believing confessions too readily. 3) As the criminal procedural law provides that if there is insufficient evidence and we cannot verify the charged crime, the court must hand down a not guilty verdict that the crimes charged are unfounded, that means that our investigations need to be thorough, detailed, and solid, collecting full and reliable evidence to lay solid grounds for the prosecution. 4) As the criminal procedural law adds the provision that audio-video material is evidence, this means that we need to make full use

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of modern scientific and technical means to investigate, ascertain, and preserve evidence.

II. Ways to improve our investigation, prosecution [indictment], and witness support to the prosecution. 1) We need to act in line with circumstances to correctly use the means of not prosecuting. The criminal procedural law provides that in addition to the six cases provided in Article 15 that require the decision not to prosecute, there are two additional ones: a) Once investigation is completed, and the evidence is still insufficient, with the suspect in fact still unable to be charged, and the case not conforming to prosecution terms, we should make the decision to not prosecute. In such cases, if we subsequently collect sure and full evidence to prove the crime, we can reindict; b) When the offense is so minor that the criminal law provides that it is not necessary to sentence to punishment or exempts from punishment, the people's prosecution organ can make the decision not to prosecute. But we need to watch in such cases that the fact of the defendant's offense being minor is clear, so that there is no need by law to give the criminal suspect a guilty verdict. 2) As the "Amendment Resolution" provides that once the prosecutor publicly reads the indictment, he needs to interrogate the defendant, producing material evidence and questioning witnesses and identification witnesses, this means that we need to change the former merely supportive and passive status of prosecutors in courtroom investigations. Meanwhile, we need to deal well with our relations with victims and their legal representatives, bringing into full play the role of victims in exposing the accused crimes. 3) As the "Amendment Resolution" provides that when the evidence presented by the prosecutor on the charged crime is insufficient, the court can hand down a verdict of not guilty due to the crime being unfounded, the success of our courtroom prosecutions and the presentation of sure and full evidence will directly affect our case success and whether we indulge crime. This means that prosecutors need to have fully explored cases before going to court, having learned and grasped the evidence pertinent to the case, and fully considered the court changes, so that they can actively present evidence in court, exposing and proving crimes, performing their duty of support to the prosecution, and having the abilities to master the whole situation, cope with contingencies quickly, and speak eloquently. 4) As the courts no longer have the authority to return cases for supplementary [additional] investigation, when it appears in court that new conditions show that there is insufficient evidence for the crimes charged and additional investigation is needed, the prosecutor should propose such additional investigation.

III. Ways to better tighten our legal oversight. As the criminal procedural law clearly provides that oversight by prosecution organs of legal proceedings is a basic principle, as well as granting the corresponding means and measures, prosecution organs need to use these legal provisions fully and well to tighten their legal oversight.

A. We need to tighten our oversight of the placing of cases on file for investigation and prosecution by public security organs, conscientiously resolving matters such as cases that are not so filed, crimes that are not investigated, and the substitution of fines for criminal prosecution. We need to establish an effective system, broadening channels, to promptly note and grasp real case developments and the filing of cases by public security organs. When we find that a public security organ should have but did not file a case or a victim presents a challenge, we should require the public security organ to explain its reasons. When we find after conscientious investigation that a decision to not file is unfounded, we should notify the public security organ to file the case. When state organ personnel use their authority over a crucial public security case to require a direct hearing by a people's prosecution organ, we should promptly file the case for investigation upon submitting it for decision to a prosecution organ above the provincial level.

B. We need to do a conscientious job of follow-up oversight of coercive steps taken to make arrests. The "Amendment Resolution" provides that when a people's prosecution organ decides to approve an arrest, the public security organ should implement it immediately, as well as promptly reporting the circumstances of the implemention to the people's prosecution organ. When a public security organ releases an arrestee, or changes the arrest means, it should notify the people's prosecution organ that gave the original approval. As to a detained criminal suspect for whom the people's prosecution organ does not approve the arrest, the public security organ should release immediately upon receipt of such notification, as well as reporting the implementation promptly to the people's prosecution organ. As this is new legislation provided to tighten the investigative oversight of people's prosecution organs, people's prosecution organs at all levels must do a conscientious job not only of investigating and approving arrests, but also of follow-up oversight of the implementation of their decisions, standardizing and institutionalizing such work as a key part of their investigative oversight.

C. We need to tighten our oversight of judicial actions, lodging judicial complaints actively according to law. We need to focus on resolving wrong judgements such as not guilty sentences when crimes have been committed, light sentences for serious crimes, the abuse of

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Article 162, Item 3 of the Criminal Procedural Law, and the illegal application of reprieves and exemptions from punishment. As to cases of judicial complaints by people's prosecution organs, the "Amendment Resolution" makes certain crucial provisions. So the conscientious study of these provisions will be of crucial importance in correctly exercising our right to lodge judicial complaints.

D. We need to tighten our decision execution oversight, to preserve the solemnity of punishment executions. The "Amendment Resolution" better clarifies the procedure for delivery for execution, making strict provisions on temporary beyond-jail executions. Meanwhile, it clearly provides the validity of oversight steps by people's prosecution organs over execution activity such as temporary beyond-jail executions, commutations, and releases. People's prosecution organs should make full use of these legal provisions, better tightening their oversight of execution activities, and rigorously correcting illegal behavior in the delivery for execution in accordance with law and temporary beyond-jail executions, commutations, and releases.

E. The criminal procedural law makes clear and strict provisions on the terms [time limits] for all legal actions. Prosecution organs should tighten their oversight of strict observance of case-handling terms, conscientiously correcting overterm detentions, to promote strict and civlized law enforcement.

F. We need to tighten our oversight of actions that violate legal procedures, to preserve the solemnity of legal proceedings. The "Amendment Resolution" adds a provision to the former criminal procedural provision that—when a people's prosecution organ finds that a public security organ investigation has violated the law, it should notify the public security organ to correct the violation—that when a people's prosecution organ finds that a people's court trial has violated legally provided legal procedures, it has the right to ask the court for a correction. So when public security organs and people's courts violate statutory legal procedures, we need to promptly ask for corrections. And we need to lodge judicial complaints in accordance with the law when people's courts violate public trial provisions or avoidance regulations, when trial-organization composition is illegal, depriving or limiting the legal rights of litigants, to the point of affecting trial impartiality, and when other legal procedures in violation of criminal law provisions could affect just trial judgements.

PRC: PLA Paper on Resisting Infiltration of Colonial Culture

HK0207035696 Beijing JIEFANGJUN BAO in Chinese 19 Jun 96 p 1

[Report by reporter Lu Guoying (0712 0948 5391): "Firmly Resist Infiltration of Colonial Culture; ZHONGGUO GUOFANG BAO Calls Informal Meeting on 'National Spirit and Dignity'"]

[PTS Translated Text for FBIS] ZHONGGUO GUOFANG BAO's [CHINA NATIONAL DEFENSE DAILY] editorial board called an informal meeting on "national spirit and dignity" the day before yesterday. Participating experts and scholars unanimously believed that under the situation of developing a socialist market economy, it is necessary to vigorously promote socialist cultural and ideological progress, hold high the banner of patriotism, and firmly resist and check unhealthy tendencies in the ideological, moral, and cultural fields.

Since May ZHONGGUO GUOFANG BAO has prominently featured a series of reports including "Foreign Signboards? Disgraceful Signboards?" "It Was Devils Who Actually Danced to the Song 'I Speak My Mind' Sung by a Soldier," "What Is He Up to Who Sells Japanese 'Military Songs'?" "It Is Not Only Ignorant To Sell the Book 'Shame Brought About by Sino-Japanese War of 1894-1895!'" "Can We Turn a Blind Eye to Those Flaunting Foreign National Flags?" and "Stop 'Nazi' Soul From Reappearance," which were accompanied by commentaries. These reports aroused strong repercussions in society. The participants analyzed the reasons for the dregs of colonial culture resurfacing in one or two places. They pointed out certain foreign forces hostile to China and those who have ulterior motives have never stopped their infiltration and disintegration activities against China. So we must sharpen our vigilance.

Participants stressed that stepping up socialist cultural and ideological progress is a basic measure for resisting the infiltration of all kinds of decadent foreign culture including colonial culture. All levels of leadership must conscientiously put into effect General Secretary Jiang Zemin's instructions about the necessity for leading cadres to stress politics. They must acquire a sober understanding of the unhealthy tendencies in the cultural field including the reappearance of dregs of colonial culture and maintain necessary vigilance. All levels of administrative and law- enforcement departments must improve management and intensify efforts to enforce laws. Media units have an unshirkable role to play in publicizing the need to display national spirit and maintaining national dignity and in educating the public to do so. They should do a good job in eliminating the

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impure from the pure and in upholding the good against the evil.

Present at the forum were responsible comrades of the central government departments, various headquarters, Beijing's media units, experts, and scholars.

PRC: Christian Group Said Targeted in 'Strike Hard' Campaign

HK2806095896 Hong Kong EASTERN EXPRESS in English 28 Jun 96 p 7

[By Arthur Stone]

[FTS Transcribed Text for FBIS] Police in Jiangxi province have announced the suppression of an "illegal organisation" of rural Christians, in an indication that the mainland's crackdown on crime is being invoked to control unauthorised religious groups.

The Jiangxi Legal News said public security officers in the province's Xinjian county had acted on May 9 to shut down the activities of the group, known as Blood and Water Holy Spirit.

The move to break up the organisation was part of the nationwide "Strike Hard" campaign, the paper added.

Strike Hard, a massive effort to suppress crime and other threats to social stability, was launched in late April.

Although previous reports have indicated that ethnic nationalists in Tibet and Xinjiang have been among those jailed during the crackdown, the report from Jiangxi suggests that the campaign is targeting underground Christian sects.

The paper described the group, whose full name is the Jesus Christ Blood and Water Holy Spirit Full Gospel Preaching Team, as an "illegal infiltrating organisation" founded by visiting Christians from Taiwan.

After spreading to Xinjian county in 1993, the group's local meeting point was broken up by authorities and its leader, Zhou Zuoyun, sentenced to two years of "labour re-education".

But a female member of the group, Zhang Guihua, established a new meeting point where she reportedly "continued to engage in illegal activities" along with 12 followers.

These included distributing copies of the New Testament and "attacking and denigrating the religious policies of the Communist Party", the paper said.

In addition to taking unspecified "lawful measures" against Zhang Guihua, the county's Public Security Bureau also required her followers to undergo a course of "intensive education and study" and to sign "certificates of repentance" in which they undertook not to continue their activities.

Zhou Zuoyun, the group's original leader, was reported to be on the run after being released from detention in January 1995.

It was unclear if he was wanted in connection with Zhang's activities.

PRC: CPC Official Urges Writers to Learn From Late Minister Mao

OW0207111396 Beijing XINHUA in English 0820 GMT 2 Jul 96

[FBIS Transcribed Text] Beijing, July 2 (XINHUA) — A senior Party official today urged Chinese writers to learn from late cultural minister Mao Dun who was a genuine Party member and a real revolutionary writer.

Zhai Taifeng, deputy head of the Propaganda Department of the Chinese Communist Party Central Committee, hoped that writers would write for the benefit of people, in the way Mao Dun had pursued, and use Karl Marx's theories to examine various literary schools and social trends — even if they are from abroad or ancient times.

"Writers must keep a clear-cut stand in dealing with major and great issues in literary criticism," he pointed out at an exhibition in Beijing to recall Mao Dun's deeds. Zhai was helping launch ceremonies approved by the Party Central Committee to mark the centennial of Mao Dun's birth on July 4.

Mao Dun, one of the first Party members in the 1920s, served as first Cultural Minister after 1949 when the People's Republic was founded. He himself was a leading writer in China in the 20th century.

His main contribution was to promote the genre of "Revolutionary Literature," which was a means to help the Party combat its enemies.

One of his representative works, "Midnight," was regarded as a milestone in contemporary literature. The novel depicted a Chinese capitalist who was doomed to failure in the 1930s. Mao Dun used this story to demonstrate the fact that only socialism could save the country.

Mao Dun died in 1981. His memorial service was presided over by Deng Xiaoping.

Zhai said that Mao Dun was a splendid banner in literary creation, theory and criticism under the guideline of Marxism, adding that the Party expected writers to churn out masterpieces that can compare with "Midnight."

The one-week-exhibition features photos, books and manuscripts relating to Mao Dun. Other commemorative

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activities will include meetings, seminars, publications and films.

China's literature has entered a new era since the reform and opening policy was introduced in the late 1970s. Various literary schools have emerged, bringing a cultural renaissance to modern China.

However, some writers, lured by market forces, have created low- class and spicy works which can spoil people's spiritual lives, reports said. The Party and government have repeatedly called on literary circles to support the socialist cause and modernization drive.

PRC: Likely Changes at 15th Congress Examined

HK2806015696 Hong Kong CHING PAO in Chinese 1 Jun 96 No 6, pp 25-27

[Article by Chang Mu (1728 3092): "CPC Considers New Team at 15th Party Congress; Will Increase Foreign Exchange Reserves To Cope with Emergencies"]

[PTS Translated Text for FBIS] It has already been decided by the CPC that at the Sixth Plenary Session of the 14th CPC Central Committee to be held in autumn this year the main topic will be the building of spiritual civilization. However, as the 15th party congress will be held next year, the position of the party as the party in power and party building will also be essential major topics. In the final analysis, the personnel arrangements of the new team next year and the training, tempering and assumption of posts by the century-straddling leadership structure also require careful planning and arrangements.

As the current domestic political and international diplomatic situations are highly complex, and there are many contradictions and complexities in decision-making by the upper levels of the CPC, the examination and grasping of matters has become increasingly difficult. Even with respect to personnel issues, there exists the situation where a slight change in one respect may affect the whole situation. This has resulted in the work of speeding the changeover from the old leaders to the new and the installing of a younger leadership, not only clearly slowing down, but appearing to stagnate. Many of the middle-aged successors have already been in training for quite a long time in order to be able to take over as head or deputy of a province or ministry. However, as the years have slipped by, many of these persons are now entering their 60's and approaching retirement age. The officials who manage organizational and personnel matters in the CPC have made appeals, noting that within the various leadership groups levels, there has appeared a new round of "aging."

Sacrificing Speed and Increasing Foreign Exchange Reserves

Since the beginning of this year, the economic development of the Chinese mainland has been seeing a "soft landing," there has been an obvious reduction in the excessive speed of economic growth and in inflation, and enterprise performance has seen a slight turn for the better. It appears from the statistics available that this autumn's harvest will be a good one. Apart from the excessive rise in civil aviation airfares brought about by an increase in rail freight charges, there has been a general and obvious reduction in the price rises of the ordinary people's daily needs. Senior government officials, including Premier Li Peng and Deputy Premier Zhu Rongji have confidence in the overall economic situation. In May, Zhu Rongji and Wu Bangguo, who are in charge of economic work, were both interviewed and they indicated that the economy was moving toward normal operations. The CPC authorities have with great gumption speedily increased foreign exchange reserves. In the 1980's, state foreign exchange reserves hovered around several billion dollars. By 1993 they had grown to over $21 billion, and this year they have clearly exceeded $80 billion. It is not inconceivable that within the near future, the reserves will exceed those of Taiwan. The speed of growth in foreign exchange reserves has attracted the world's attention.

Some economists have expressed veiled criticism with respect to the rapid increase in foreign exchange reserves. They admit that on the one hand this controls the scale of credit and holds down the scale of capital construction, but on the other hand, the use of a large volume of funds to increase foreign exchange reserves sacrifices economic growth and due economic expansion. However, Zhu Rongji was unwavering on this point. It was like when he was in charge of Shanghai and he rejected the claims by some experts that it was not economically feasible to build a big bridge over the Huangpujiang. Instead, he firmly set to work building the bridge and provided an example of the huge scale of investment going into the new Pudong region. Such a long-range view and decision-making by a politician is rarely seen. According to authoritative sources, regardless of which angle one looks from, the tense situation of imminent handover of political sovereignty over Hong Kong or the waxing and waning in economic relations across the strait, as far as the international position of a great and proud country is concerned, maintaining powerful foreign exchange reserves is of vital importance. It is thus that CPC General Secretary Jiang Zemin and Li Peng have both indicated that it is very necessary to sacrifice a certain speed of growth.

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An Overall Soft Landing, Reforms Face Difficulties

It should be recognized that while the economic development situation is just passable, the problem of reform within enterprises, the problem of sustained and stable development of agriculture, the problem of the relationship between macroeconomic regulation and control and local opening up and enlivening, the problem of the relationship between speed of development and the investment scale, the problem of foreign trade tariffs and entering the WTO, the problem of opposing corruption and advocating clean government, the problem of striking at crimes and maintaining social order, the problem of overall civilized education in society and the building of morality, and so on, all still involve many difficulties.

However, at present, the crucial contradiction in economic reform is how, in terms of structure, to orient toward the market economy and enliven the enterprise economy. The issue of "grasping large enterprises and allowing flexibility for smaller enterprises" was put forward by Zhu Rongji and approved by the Fifth Plenary Session of the 14th CPC Central Committee and the government work report passed by the NPC. However, some high- level CPC think-tank experts and orthodox theorists of the Chinese Academy of Social Sciences believe that the small-scale state-owned enterprises are essentially the backbone enterprises of the prefectures and counties, and a switch in ownership would inevitably lead to grassroots political power losing its support. "If the base is not firm, the land will shake and the mountains will rock." They claim that the proposal is no different from peaceful evolution on the economic level. If it is followed, what difference will there be between the socialist market economy and the capitalist market economy? From this, it is possible to see the difficulties faced by the reforms.

Not long ago, Jiang Zemin went to Shanghai to carry out an investigation, and made a speech about reform of small-scale enterprises. He also reiterated Deng Xiaoping's words, "we must be brave in experimenting and be brave in pioneering," and urged that readjustment be carried out in accordance with the actual situation.

Grasping the Major Enterprises and Allowing Flexibility With Respect to Small Enterprises Is Still the Strategy of Reform

Zhu Rongji stressed that "grasping the major enterprises and allowing flexibility with respect to the small enterprises" is still the strategy with respect to reform ostate-owned enterprises, and that it is necessary to increase the reform strength for small-scale state-owned enterprises. With respect to small enterprises with the conditions, it is necessary to establish and form enterprise groups which provide coordinated services for large enterprises and which engage in specialized production operations. With respect to ordinary small-scale enterprises, it is necessary to further free them and enliven them. In particular, enterprises which come under counties should be given a bit more freedom. He recognized that there existed some problems in this and that the different sides had different ideas and understandings. However, Zhu Rongji stressed the following points: 1) It is necessary to firmly uphold the situation where different forms coexist. We cannot adopt a model which demands uniformity. In accordance with different situations, any of the following methods can be adopted — reorganization, alliance, merger, a shareholding cooperative system, leasing, contracted operations, or sale, so as to speed the pace of reform and reorganization. 2) It is necessary to firmly uphold the correct orientation of the reform and reorganization of small-scale state- owned enterprises. The vast majority of these should remain as various forms of state-owned or collective operations, while only a small number should be sold to private operators or individual operators. In particular, encouragement should be given to reorganizing these operations as collective shareholding operations. It must be made clear that the collective economy is not a low level form or transitional form of public ownership. Rather, it is an important form of the public-ownership economy which must be actively supported and positively developed. 3) It is necessary to guard against the erosion of state-owned assets. 4) It is necessary to formulate and propagate as swiftly as possible "Provisional Regulations on Shareholding Cooperative Enterprises" as well as relevant stipulations on leasing and auctions, so as to use legal measures to guarantee the smooth completion of reform and reorganization work.

Grasping the Overall Situation, Considering the New Structure

Because of the influence of corruption, crime and the spread of unhealthy trends in society, social order is not good, the people do not feel secure, and this is seriously threatening the stability of the overall situation. The upper levels of the CPC have decided to use heavy punishment to handle the deteriorating situation. They issued orders that, beginning from April, there must be swift and overall striking at serious crimes and swift examination and swift sentencing with respect to armed robbery, murder and other serious crimes. At the same time, it is necessary to tightly grasp the investigating and handling of corrupt activities by leading cadres. Dealing with the unhealthy trends in society and promoting the building of spiritual civilization and morality will create a quite good environment for the sixth plenary session. However, "strike hard" can only achieve results for a

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time. More importantly, the whole society must form a concept of the legal system. That is to say, from the upper levels to the lower levels, it is necessary to form a system where people abide by discipline in carrying out public duties, where decisions are taken in accordance with the law, where administration is conducted in accordance with the law, and where all matters are handled in accordance with rules and regulations. The practice of being harsh some of the time and being relaxed at other times will however reduce the authority of those in power.

The sixth plenary session will require that in terms of party and government management, powerful measures are adopted in order to strengthen leadership. These will include proposals in terms of funding, personnel and day-to-day management, as well as in terms of moral style, so as to promote the building of spiritual civilization in an overall way. As to whether it will be possible to truly improve the atmosphere and build a new social style, people will just have to wait and see. What is worthy of attention is that while Jiang Zemin declared last year that he wanted to lead a reformed and open China into the 21st century, and this attracted wide attention in society, up until now, no-one else has been heard to repeat these words. **It appears that there are still some variables with respect to the personnel arrangements for the high-level decisionmaking core in the 15th party congress next year. It is believed that the sixth plenary session will study and discuss this.** Apart from the likely formal retirement of Liu Huaqing who is 80 years of age, the crux is the arrangements for Jiang and Qiao, who are both over 70. It is most likely that they will retire together. It is clear that the person who will replace Liu Huaqing on the CPC Central Committee Politburo will be a general, with the most likely being Zhang Wannian or Chi Haotian. It appears that Li Peng will no longer continue in the post of premier, but his number two position in the party determines that he will have to have a new post. As there will be readjustments among the major party, government and military leaders and the arrangements for the century-straddling personnel have yet to be completed, there is very great scope for change. It is unlikely that the sixth plenary session will fix these. It is probable that the real decisions will be taken at the seventh plenary session prior to the 15th Congress.

Setting Taiwan Policy, No Concession on One Country

At the beginning of May, the orientation of the CPC policy on Taiwan was basically clear.

Authoritative sources note that in April the standing committee of the CPC Central Committee's Politburo studied the successes and failures of the military exercises, and policy-making in the new situation following the elections in Taiwan. It held that following the Taiwan elections, Li Teng-hui still dominates the political scene and thus a return to the negotiating table is unlikely to achieve any real results. In this respect, **they made some clear decisions: The struggle to oppose splittism and to oppose an independent Taiwan cannot be relaxed; the principle of one China must be firmly upheld as the basis for talks; on the diplomatic level, they would move firmly to block Taiwan's "international political space"; they would continue to promote economic, trade, and cultural contacts, as well as people-to-people exchanges in order to win the hearts of the Taiwan people.**

At the Taiwan work conference convened at the end of April in Beijing by the CPC Leading Group on Taiwan, it was held that the serious setbacks and reverses experienced in cross-strait relations was the result of the splittist activities of the Taiwan authorities. They resolutely rejected those activities pursued by the Taiwan authorities whereby on the surface they sought detente and consultation, but actually did not change their splittist line. The Deputy Premier Qian Qichen and Wang Zhaoguo, the head of the State Council's Taiwan Affairs Office reiterated "Jiang Zemin's eight-point proposal" at the meeting. However, it was not to be as some outsiders had it where there would be a swift return to talks and consultation. Yet, neither was it the case as some commentators reported, that it would be necessary to wait until Li Teng-hui made his inaugural speech and detailed his attitude to Beijing. Rather, the matter was decided in accordance with the overall political policies. According to sources, senior members of the party and the government and, in particular, military leaders, believe that Li Teng-hui's basic ways will not change, and there is no point talking with him. Qian Qichen expressed the view that for the moment there is no urgency to hold talks with Taiwan.

Decisionmaking Is Becoming Clearer; "Diplomatic Warfare" Is Seeing New Developments

It is worthy of note that since Li Teng-hui was elected with a big majority, commentaries and reports issued by the Chinese Communists no longer make Li Teng-hui the target of their criticism. Restraining the "fire power" used to criticize Li Teng-hui is both a way to avoid affirming the claim that three-quarters of voters support "open or concealed Taiwan independence," and is also a way of leaving room for maneuver. Li Teng-hui clearly understands that the top levels of the CPC detest

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him and are thinking of all sorts of ways to bring about his fall. However, around the time of his inauguration, he repeatedly displayed a relaxed face, so as to sound out the attitude of the CPC. Using the excuse that the CPC decisionmakers were not unified in their views on the Taiwan issue, he provocatively stated that he did not know whether Jiang's position was secure and that only if Jiang retained the prime political position after the death of Deng would there be the possibility of a high-level summit. Actually, this was just providing himself with a way out.

Some people ask, given that "Jiang's eight-point proposal" noted that "Chinese people should not fight Chinese people," why did the mainland use powerful and threatening military exercises directly aimed at Taiwan? Further, when the U.S. openly intervened and sent a large battle group into the seas near the Taiwan Strait, China just had its foreign affairs spokesman criticize the United States' "flagrant interference in China's internal affairs." This was a weak response and harmed its status as a great nation. This cannot compare with the attitude when Chen Yi was in charge of foreign affairs. There are some indications which suggest that the major center for deciding tactics with respect to Taiwan has shifted from the Military Commission to the State Council. Originally, Beijing stressed equal discussions between the two parties—the CPC and the KMT—so as to achieve a third period of cooperation between them. Thus, Jiang Zemin took over from Yang Shangkun as the head of the Leading Group on Taiwan, and became the highest authority in decisionmaking with respect to Taiwan. Since last year, a new force comprising military leaders has appeared and they have noticeably expanded their share of statements with respect to Taiwan. They have also repeatedly commanded operations aimed at demonstrating an ability to recover Taiwan. However, the two most important and authoritative policy speeches with respect to Taiwan were made by State Council Premier Li Peng. Following the Taiwan election, the Chinese Communist military leaders' overbearing manner has seen a marked reduction.

Today, there has been an initial transparency achieved in high- level decisionmaking with respect to Taiwan. In recent times, the senior leaders of the CPC have gone on overseas visits. Jiang Zemin went on a visit to Africa, where Taiwan's diplomatic space is quite great. This has created a new round of "diplomatic warfare" aimed at blocking Taiwan's international political space. Qian Qichen has stressed that while it appears that the Taiwan Strait issue is complex, it is actually very simple. If the United States and other countries did not support Taiwan's independence, it would be possible to maintain a peaceful situation. **Clearly, the Beijing authorities have taken the resolving of the external environment problems with respect to the Taiwan issue and, in particular, those related to the major powers such as the United States and Japan which are close to Taiwan, as the first major task in the future.** Following the withdrawal of the National Party, which is the country's second largest party, from the South African government, there has been an invisible acceleration of the pace of establishing diplomatic links with China.

As to the present situation and future prospects in cross-strait relations, it is believed that with respect to political contacts and discussion, there still exist quite complex and difficult entanglements, and it is unlikely that breakthroughs will be achieved in the short term. However, economic and cultural interchange and the three contacts will, if they are strongly promoted, see some development.

PRC: Strong Aftershock Hits Yunnan's Lijiang County

OW0207095696 Beijing XINHUA in English 0938 GMT 2 Jul 96

[FBIS Transcribed Text] Beijing, July 2 (XINHUA) — A strong aftershock measuring 5.2 on the Richter Scale hit quake-stricken Lijiang county in southwest China's Yunnan Province this afternoon.

The State Seismological Bureau told XINHUA that the tremor occurred at 15:05 (Beijing time), and the epicenter of the quake was located at 26.9 degrees north latitude and 100.1 degrees east longitude.

A strong earthquake measuring seven on the Richter scale rocked the Lijiang county on February 3 this year, killing 255 people, injuring 14,000 and destroying 340,000 houses.

PRC: Correction to CPC Refutes Deng Liqun's 'Leftist' Letters

HK2706093396

The following correction pertains to the item headlined "CPC Refutes Deng Liqun's 'Leftist' Letters," published in the 28 June China DAILY REPORT, page 35:

Page 35, Column two, 2nd full paragraph, only sentence should read: mainland scholars Li Zehou and Yan Jiaqi...(correcting name).

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Military & Public Security

PRC: PLA 'Sources' Comment on Modern Missile Troops

OW0107150196 Beijing XINHUA in English 1442 GMT 1 Jul 96

[FBIS Transcribed Text] Beijing, July 1 (XINHUA) — After 30 years of arduous efforts and intensive training, China's missile troops not only boast modern equipment, but also have developed "all-weather" combat capabilities.

Since the troops were founded 30 years ago, they have built a dozen bases with a deployment of different types of missiles using varying launching methods, said sources from the special army force of the Chinese People's Liberation Army [PLA].

The missile bases, located in the unexplored regions of plateaus, outlying mountains or wild deserts, can be taken as launching sites for offensive or defensive missiles, and also to store missiles.

Using findings from nearly 1,000 research experiments in missile manufacturing and military training, the troops have improved remarkably their emergency response abilities and missile accuracy.

More than 80 percent of the officers in the missile army have received systematic training at military institutes, or have studied in colleges or universities, which contributes to the troops' modernization.

PRC: Intelligence Gained From Details of O'Grady Escape

HK0107020096 Beijing JIEFANGJUN BAO in Chinese 11 Jun 96 p 6

[Article from "Military Forum" column by Miao Yumin (5379 3768 3046): "Enlightenment From O'Grady's Escape"]

[PTS Translated Text for FBIS] While on regular patrol duty in a NATO-enforced no-fly zone over southern Bosnia-Herzegovina on 2 June 1995, a NATO F-16C fighter plane was hit by a SA-6 surface-to-air missile fired from a Bosnian-Serb stronghold. Pilot O'Grady bailed out, abandoning the plane, and went into hiding for six days and nights before he was finally rescued by a NATO rescue plane. Some papers recently published in great detail how O'Grady escaped, thus providing food for thought.

O'Grady's escape provided beneficial enlightenment to our Army's equipment building. It was reported that O'Grady carried two survival kits, one containing a survival map, personal radio communicator, microscopic satellite global positioning system receiver, and so on, and the other containing flares, a flare gun, a space blanket, a camouflage net, an orange hat, camouflage face paint, sponges, and so on. Thanks to these two survival kits, O'Grady knew exactly where he was at all times. He overcame cold and thirst, surmounted a host of difficulties and hardships, made contact with a NATO rescue plane looking for him, actively cooperated with a rescue team looking for him, and was finally rescued safe and sound. O'Grady was a fighter pilot not on a special combat mission. The two survival kits had been prepared for him in case he landed in an enemy-controlled zone. He had perfect equipment with complete functionality. He used almost all the equipment in the two survival kits. Take the orange hat for example: Though a radio report said that O'Grady could be in a place where flares were spotted, when the rescue team finally arrived on the scene on 8 June, they discovered O'Grady by spotting the orange hat he was wearing. His two little survival kits raised a serious question relating to equipment building: Units should develop auxiliary equipment and apparatus in light of actual missions, needs, and personnel. They should not be equipped with unified equipment and apparatus. Units should develop equipment and apparatus in light of survival needs under all circumstances and should avoid simplification in this connection.

To improve survival equipment, the Army should try to cater to needs of units executing special combat missions, including in-depth penetration, outflanking, overhead assault, advance reconnaissance, secret infiltration, and so on. After penetrating enemy lines, troops should be able to survive, fight, and return safe and sound. When executing a combat mission, troops could sometimes land on remote mountains, isolated islands, or in an awkward predicament, awaiting rescue. Thus they should be equipped with survival kits with complete functionality. What should a survival kit contain? This is an issue worthy of conscientious study and demonstration. In my opinion, a survival kit should never just contain a compass, tourniquet, a bottle of cooling ointment, and several days of solid food.

O'Grady's escape has provided beneficial enlightenment to our Army's training reform. It was reported that the NATO pilot was well-versed in military skills. After bailing out, he skillfully camouflaged himself and made use of camouflage skills and techniques he had mastered. As a result, the Bosnian-Serb troops could not find him. On the fifth night of his hiding, he was awakened by anti-aircraft machine gun fire and heard a plane flying at very low altitude. He immediately concluded that it was a rescue plane looking for him and unhesitatingly turned on his personal radio communicator and sent a signal for help. As a result, he

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made contact with the rescue plane. The whole process of O'Grady's escape shows that he was a pilot of fine quality and that he had received strict and effective training. To build a smaller but more efficient Army, in addition to developing scientific establishment and advanced equipment, we should carry out strict and systematic training aimed at improving the quality of officers and soldiers, this being an issue of greater importance and, in a certain sense, a project more important and more arduous than that of improving equipment.

O'Grady's escape has also provided beneficial enlightenment to our Army's counter-sudden-penetration, counter-infiltration, and counter-hiding training under high-tech conditions. First, equipped with high-tech equipment and apparatus, such as a global positioning system receiver, powerful personal radio communicator, and other advanced equipment, a penetrating, infiltrating, and hiding enemy could be more dangerous under modern conditions. Had O'Grady been a special agent infiltrating enemy lines on an espionage mission, he would have inflicted severe damage after staying and operating behind enemy lines for so many days. Second, in a period of five and one-half days from the afternoon of 2 June when his plane was shot down to 8 June when he was finally rescued, O'Grady moved less than one mile in the same area and sent signals for help on several occasions. However, he was still not discovered by the Bosnian-Serb troops. Had he been a special agent hiding there, he would have been able to direct air strikes against the enemy. He had complete freedom of movement behind the enemy line where he sent signals for help several times and finally escaped safe and sound. This fact has doubtlessly made counter-infiltration and counter-hiding efforts more difficult on a modern battlefield. In view of this, we should constantly make efforts to improve both the means and art of such efforts. Third, under modern conditions, as troops are scattered all over a battlefield, in-depth areas and vital targets could very often turn into zones most vulnerable to an infiltrating enemy. In the mid-1980's, a single plane piloted by a German youth landed in Moscow's Red Square. On this occasion, O'Grady hid himself in the enemy's "heartland" for five and one-half days. The two incidents fully show how important it is to protect in-depth areas and vital targets. In a modern high-tech war, troops should not only effectively defend forward and frontal positions against an enemy's sudden penetration, infiltration, and hiding but also make efforts to ensure security in in-depth areas.

PRC: Article on Invigorating 'Blue Army' Confrontation Exercise

HK2806095496 Beijing JIEFANGJUN BAO in Chinese 7 May 96 p 6

[Article from "Military Forum" column by Yu Kaihui (0151 0148 6540) and Lin Huomao (2651 3499 5399): "Strengthen 'Blue Army,' Invigorate Confrontation"]

[PTS Translated Text for FBIS] A leading member of the Central Military Commission has emphatically indicated: "There must be a great breakthrough in our Army's training. It is imperative to unfold confrontation exercises universally. Whether it be campaign or tactical training, confrontation ought to be adopted as frequently as possible." In the wake of the all-army demonstration-exchange meeting on experimental confrontation training last autumn, confrontation training, as the focus of the Army's in-depth training reform and the most important way to improve training quality, has been conducted in all units throughout the Army. Experience has shown that to ensure the effects and similitude of confrontation in the exercise, and to genuinely fulfill the purpose of elevating the level of campaign training, tactical training in particular, to enhance combat effectiveness, the key lies in having a mock blue army unit, which is well trained and is able to embody fully the opponent's operational characteristics.

With the surfacing of a number of "blue army commanders" of relatively high quality since the mid-1980's, army, navy, and air force units have conducted confrontation exercises between the "red army" and the "blue army" of varied scope, thus enabling greater clarity in the objective of tactical training, with new breakthroughs in this field. However, restrictions for various reasons caused fundamental changes in the original confrontation marked by intense contention. When confrontation exercises were organized, the enemy's conditions were "displayed" either by the director (operator) on the map or sand table, or "demonstrated" by sound effects, exploding points, or actions of some small unit on the strength of a small number of odd-jobmen doing logistical duties, or by designating a unit on a temporary basis to "demonstrate" the enemy's establishment, equipment, and characteristic operational behavior. This practice of replacing a "multitude" with a "small number," "the false" with "the genuine," and "the abstract" with the "substantial" more often than not reduced conditions of confrontation exercises to simplism., characterized by wishful thinking, a light atmosphere, and poor probability, and could hardly achieve the objective of improving confrontation ability.

Military forces of various countries invariably attach importance to confrontation exercises and simulation train-

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ing. At the U.S. Army's Fort Owen National Training Center, there is a special armored battalion which plays the role of a mock enemy unit. Commanders at all levels of this "blue army" are all experts in tactics with very high attainment; they have a perfect mastery of military thinking, military theories, operational principles, and characteristics of action of hostile countries, based upon which they have organized training with clear objectives and many characteristics, thus making the battalion a "true enemy unit." Generally, other units of the U.S. Armed Forces that conducted confrontation exercises with this "blue army" could hardly win, but when they were sent to the battleground, they showed very strong operational ability. This point was proven in the Gulf War.

Referring to helpful practices of foreign armies and the successful experiences of some units of our own Army in organizing confrontation training, it is not difficult to see that the benefits are manifold of establishing and employing mock blue army units to conduct confrontation exercises, which are worth promoting in a big way. These authors believe that to meet the actual conditions of various major units and their training requirements, it is appropriate to adopt varied organizational forms of varied scope in establishing blue army units. First, a unit in the establishment may play the role of a mock blue army unit on a relatively regular basis (a Class-A division may designate a battalion, and a regiment may designate a company, and have them reinforced based on the operational requirements of the "blue army"). Second, units in the establishment may play the role of the blue army unit in rotation; the organization of training and implementation of confrontation exercises are to center around one or two topics, and the scope can be determined by the size of the topic. And third, it may be organized with personnel selected from various units on a temporary basis, and its scope depends on the objective and need of training. Based on our Army's training requirements in the immediate future, the practice of founding a blue army regimental commanding organ in every group army, a mock blue army battalion in every Class-A infantry division, and a mock blue army company in every Class-A infantry regiment may be taken into consideration. This way, all group armies will have a mock "blue army regiment," thus basically ensuring live exercises in tactical confrontation of varied scope from the company to division.

To found a mock blue army unit means precisely to set up an opposition against oneself. Such being the case, the blue army unit must achieve "likeness in spirit" as well as "likeness in appearance" of a genuine unit. It is imperative to conduct training in strict accordance with this requirement, so that it may genuinely be the "grinding stone" for the "red army." To achieve this, a mock blue army unit must have perfect mastery of enemy tactical thinking, principle, and means. On the basis of theoretical study, it is necessary to send the mock blue army unit to the actual exercise ground to deploy its men and armaments, build fortifications, lay obstacles, formulate operational plans, and truthfully reflect the overall feature of the enemy operational action as best it can. To guarantee quality of mock training, units at various levels must not begrudge the input of a certain amount of funds for building the "blue army" headquarters, establishing the "blue army" operational room and tactic training ground, completing and perfecting training equipment and instruments in various categories to conduct training in simulating the subject at war as well as the conditions of the site for command operation with probability, so as to do a good job of creating a high-fidelity battleground environment for confrontation training.

PRC: Jiang Zemin Meets Military Technology Prize Winners

OW2006134496 Beijing XINHUA in English 1254 GMT 20 Jun 96

[FBIS Transcribed Text] Beijing, June 20 (XINHUA) — President Jiang Zemin today met a group of military personnel who won prizes for major achievements in developing military technology.

Jiang, also general secretary of the Chinese Communist Party Central Committee and chairman of the Central Military Commission, urged the prize winners to make greater contributions to the modernization of the army and the country in general.

"Science and technology are leading productive forces", the president quoted Deng Xiaoping as saying, calling this an important point of Deng's theory.

For that, Jiang said, the Central Military Commission put forward the strategy of strengthening the armed forces by promoting science and technology, the same as that put forth by the Party Central Committee to build up the nation by developing science and education.

He stressed that it is imperative to resort to the progress of science and technology as a way to quicken the pace of military modernization, as well as the country's economic construction.

In future competition in the world, those mastering advanced science and technology will easily gain advantage and initiative, he said.

He encouraged military scientists to learn from the old generation of scientists and make fresh achievements in

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developing military science and technology, saying that the award-giving system set up by the Central Military Commission is meant for just that purpose.

PRC: Pakistan's Army Chief Holds Talks With General Fu

BK2706050396 Islamabad Radio Pakistan Network in English 0300 GMT 27 Jun 96

[FBIS Transcribed Text] The Chief of the Army Staff, General Jehangir Karamat, now on a five-day official visit to China has held a meeting with General Fu Quanyou in Beijing. General Fu said during the meeting that China and Pakistan had cooperated in every field over the past years. There had been frequent exchanges of visits at the top level.

PRC: PLA Delegation Leaves for India 1 Jul

OW0107111296 Beijing XINHUA in English 0937 GMT 1 Jul 96

[FBIS Transcribed Text] Beijing, July 1 (XINHUA) — A six-member delegation of the Chinese People's Liberation Army [PLA] led by general Zhang Taiheng, commander of the Jinan Military Area Command, left here today on a visit to India at the invitation of the Indian armed forces.

PRC: PLA's Fu Quanyou Returns From Mongolia Visit

OW2106112896 Beijing XINHUA in English 0953 GMT 21 Jun 96

[FBIS Transcribed Text] Beijing, June 21 (XINHUA) — Fu Quanyou, member of China's Central Military Commission and chief of the general staff of the Chinese People's Liberation Army (PLA), and his party, returned here today after an official good-will visit to Mongolia.

PRC: Disputes in Deliberating 'Law of National Defense'

HK0107090696 Hong Kong MING PAO in Chinese 18 Jun 96 p A10

[Report by special correspondent Hao Te-Hsien: "Drafting of 'National Defense Law' Meets With Resistance of 'Army Under Command of Party'"]

[PTS Translated Text for FBIS] The "Law of National Defense" that is in preparation for adoption in China has aroused intense disputes among the top echelon because relevant articles involve the foundation of CPC political power — centering around the issue of whether the Army should be "surnamed party" or "surnamed state"; consequently, the presentation of the law has been postponed far later than scheduled.

Conflict Between the Draft and the Constitution

It was disclosed that Article 18 of the draft "Law of National Defense," which has been submitted to the National People's Congress [NPC] Standing Committee for its deliberation, stipulates: The Chinese Armed Forces must subordinate themselves to the leadership of the CPC.

Some NPC Standing Committee members, scholars, and legal experts believe that the stipulation in the article in question conflicts with relevant clauses in the Chinese constitution.

Article 29 of the Chinese constitution stipulates: "The Armed Forces of the PPC belong to the people." Article 93 stipulates: "The PRC Central Military Commission [CMC] leads the armed forces of the whole country." Article 94 stipulates: "The CMC holds itself responsible to the NPC and its standing committee."

It was indicated that those persons who held a different opinion on the "Law of National Defense" explicitly stipulating that the Army must subordinate itself to the party leadership were not opposed to "the party commanding the gun" — "the basic principle and glorious tradition of the party and the Army," they only believed that the phenomenon of marked conflict with the state constitution in content must not surface in legal clauses.

It Does Not Mean Opposing "The Party Commands the Gun"

Some experts proposed that the "Law of National Defense" may guarantee party leadership over the Army through restricting the State CMC members, for example, with the stipulation that the State CMC members must be concurrent party CMC members. It is unnecessary to confront the constitution directly in wording.

In the course of deliberating the "Law of National Defense," another voice of opposition from the Army was even stronger than some NPC Standing Committee members, experts, and scholars.

Some veteran soldiers believed that the standardization of the party and Army relationship in the "Law of National Defense" was not explicit enough.

Some soldiers proposed that relevant articles be revised to state that the Army must absolutely subordinate itself to the party, while they required including Article 18 in the preamble to make its importance conspicuous. Still other soldiers set forth: The "Law of National Defense" ought to be regarded as a major state law, which must not be adopted by the NPC Standing Committee

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alone, but submitted to the NPC for its deliberation and adoption.

Very Slim Possibility for Its Revision

Some scholars indicated that if the clause on the Army subordinating itself to the party leadership was deleted from the "Law of National Defense" while it was replaced with a clause on restricting the CMC, this would be a helpful attempt to standardize the means of party leadership over the state in law.

Nevertheless, because for scores of years the People's Liberation Army has traditionally been "an army of the party" and the majority of soldiers, especially the overwhelming majority of senior military commanders, believe themselves to first be the "gun" of the party, then of the "state," the possibility of realizing such an attempt is very slim.

PRC: Shanxi Holds Meeting on 1996 Public Security Work Priority

SK2606080396 Taiyuan SHANXI RIBAO in Chinese 4 Jun 96 p 1

[FBIS Translated Text] The 13th plenary meeting of the provincial commission for the comprehensive management of public security was held in Taiyuan on the afternoon of 3 June. This year's priority for the public security comprehensive management work was defined at the meeting—that is, carrying out four projects in line with the two central points and one thought. Hu Fuguo, secretary of the provincial party committee and chairman of the provincial commission for the comprehensive management of public security, set forth five demands in his speech.

Zhang Bingfa, member of the standing committee of the provincial party committee and secretary of the provincial political and legal commission; Zhang Bangying, vice chairman of the provincial people's congress standing committee; Vice Governor Du Wuan; and persons in charge of relevant departments attended the meeting.

The meeting specifically defined the work priority for Shanxi's comprehensive management of public security. The work priorities include: to act in line with the general task of reform, development and stability, Shanxi's four major battles and five projects, and the thinking of comprehensively carrying out comprehensive management of public security, making breakthroughs in key areas, outstandingly grasping public security work and serving the whole country; and to exert efforts to implement the project of building an advanced province in national public security in line with one general target, grasp public security work in urban and rural areas, pay close attention to the leadership responsibility system, grass- roots basic work, and the building of contingents in charge of the comprehensive management of public security, and strengthen measures in four aspects of work.

Hu Fuguo gave a speech at the meeting. He fully affirmed Shanxi's work of comprehensively managing public security since last year. In referring to the situation and tasks facing the current public security comprehensive management work, Hu Fuguo said: At present, periodic results have been made in the struggle to "smash criminal cliques and eliminate evildoers," and the public security situation has become more stable. However, we should soberly recognize the situation and never be unrealistically optimistic. We should fully recognize severe problems, always maintain a high degree of political vigilance, political discernment, and political sensibility, vigorously strengthen comprehensive management of public security from the perspective of safeguarding the overall situation of reform, development, and stability, further implement all measures, resolve all contradictions and problems in the grass- roots units, and nipped them in the bud. Ending his speech, Hu Fuguo particularly put forward five specific demands on conscientiously implementing the leadership responsibility system for the comprehensive management of public security and realistically implementing the task of safeguarding stability and public security in party and government leaders at all levels; unswervingly conducting the "crackdown" struggle and resolutely checking the upward trend of criminal offenses; seizing the favorable opportunity of the "crackdown" to vigorously strengthen the comprehensive management of public security and grass-roots basic work, and comprehensively implementing all measures for the comprehensive management of public security; mobilizing all social endeavors to jointly grasp and manage public security work in an effort to build an iron bastion for preventing and punishing criminal offenses; vigorously strengthening the development of public security comprehensive management offices at all levels and unceasingly raising the political quality and work of contingents in charge of the comprehensive management of public security.

PRC: Qinghai Article on Fighting Gun-Related Crimes

SK0107063996 Xining QINGHAI RIBAO in Chinese 13 Jun 96 p 1

[QINGHAI RIBAO Commentator's Article: "Take Resolute Measures Against Gun-Related Crimes"]

[FBIS Translated Text] Since the initiation of the "crackdown" struggle, Qinghai Province has given pri-

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ority to investigating the illegal manufacturing and selling of firearms and seizing illegal firearms held by the people. During the past two months, public security organs investigated, seized, and destroyed a batch of illegal firearms, showing that Qinghai Province achieved certain breakthroughs in resolving the long-standing "gun peril" problem. The masses were happy with it.

Qinghai is one of major provinces in China with "gun peril." Since the illegal manufacturing and selling of firearms was found in some townships and towns along the Huang He in 1990, these criminal activities, which seriously endanger public security, have spread to the outskirts of 15 counties and cities and to remote mountain villages. The loss of firearms used by civilians and policemen was serious, and in particular, the number of guns owned by some localities in excess of the quota is one of the prominent problems in the province. Some firearms were used by criminals. Incidents of robberies, drug trading, the hunting of rare animals, and armed fights with guns in gold mining areas and hill pastures have happened frequently, and even the phenomenon of violently resisting police with guns has emerged. Resolving the "gun peril" problem and reducing gun-related crimes and armed fights with guns have become the key to guaranteeing public security and stability in the province.

To fundamentally cure the "gun peril," we should strictly attack criminals guilty of illegally manufacturing and selling firearms and thoroughly seize all illegal guns. To successfully carry out these two tasks, in addition to giving play to the special functions of public security, procuratorial and judicial departments, we also need the attention and leadership of party committees and governments at all levels. The occurrence and spread of the crimes of illegally manufacturing and trading guns in a few areas are closely related to the weakness and listlessness of grass-roots party and government organizations. In some townships and villages in Hualong County, some village cadres even regarded the illegal manufacturing and trading of firearms as a means of "becoming rich" and acted in collusion with criminals. Some party and government leaders have also held guns above the limits. Party and government leaders at all levels must unify their thinking with the policies of the central authorities and the plans of the provincial party committee; enhance understanding; strengthen leadership; strive to achieve real results in the battle to investigate and seize firearms that are illegally manufactured, sold, and held by the people; and promote the deepening of "crackdown" struggle. Public security organs at all levels and the broad masses of cadres and policemen should also soberly recognize the necessity and arduousness of the work to investigate firearms that are illegally manufactured, sold and held by the people; overcome the sentiments of slackening efforts, being weary of the battle, and fearing hardships; closely rely on the party committees, governments, and the masses of people; and fight well this battle of crucial importance.

Only a long period of order can ensure a long period of stability. While striving to achieve actual results in the "crackdown," we should soberly understand that fundamentally effecting a cure for the "gun peril" is not a matter that can be resolved by simply conducting a "crackdown" struggle once or twice. We should not let criminals who manufacture and sell firearms an opportunity to breathe at any time, and we should not let those who hold guns to have a relaxed environment. Based on this operation to clearly investigate and seize illegal firearms, we should strike blows to crimes involving firearms as before, and we should strengthen the control of firearms. Only then can we fundamentally resolve the "gun peril" problem step by step.

PRC: Qinghai Destroys Illegal Firearms 5 Jun

SK0107034496 Xining QINGHAI RIBAO in Chinese 13 Jun 96 p 1

[By Reporter Wen Ping (2429 1627)]

[FBIS Translated Excerpt] On the afternoon of 5 June, the 3,346 various illegal firearms which the provincial public security organs had seized were turned into molten steel at the steel smelting workshop of the Xining Special Rolled Steel Group Company. The centralized operation to destroy illegal firearms is aimed at displaying the determination of the party and government to effect a radical cure for "gun perils" and the "crackdown" results of public organs, and to frighten the criminals.

Qinghai is one of the major provinces in China where "gun peril" is serious. Dealing stern blows against the crimes of illegally manufacturing and selling firearms, and investigating and seizing firearms are the most important tas?g??)?nghai's public security work. In recent years, public security organs in the province investigated and seized 7,240 illegal firearms of various descriptions. As of last year, they had successively destroyed 5,945 firearms and 2,000 kg of gun parts. After the start of the "crackdown" struggle, public security organs across the province seized more than 2,000 illegal firearms in a two-month period. The number of firearms destroyed this time accounted for 50 percent of the illegal firearms the provincial public security organs had seized.

Yao Xiangcheng, Feng Mingang, Cai Dan, La Bingli, Ajia Luosangtudan, Ma Jinxiao, Ma Yougong, and Liu

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Xiao, were present at the destruction of the firearms. [passage omitted]

PRC: Provinces Crack Down on Drug Trafficking

OW2006113696 Beijing XINHUA Domestic Service in Chinese 0857 GMT 14 Jun 96

[By RENMIN RIBAO reporter Mao Lei (3029 4320) and XINHUA reporter Jia Fenyong (6328 1164 0516)]

[FBIS Translated Text] Beijing, 14 Jun (XINHUA) — This reporter learned on 14 June from the Public Security Bureau that, since the nationwide "severe crackdown" struggle was launched, public security organs across the country have continued to step up their efforts to crack down on drug-related crimes and have cracked a string of major drug-trafficking cases.

In early April, tipped off by the masses, the public security organ of Yongping county in Yunnan's Dali prefecture captured five drug traffickers and seized 17.43 kg of heroin and one handgun. On 10 April, while interrogating three suspicious travelers, members of a border anti-drug team in Yunnan's Fengqing county seized 19.44 kg of heroin and two hand grenades. On 17 April, the public security organ of Yunnan's Simao prefecture and Kunming Customs jointly cracked a major drug-trafficking case, seizing 107.25 kg of heroin, one handgun, and 200,000 yuan of drug money and capturing six criminal suspects.

On 12 April, public security organs of Guizhou and Gansu closely cooperated in cracking a drug-trafficking case, seizing 12.7 kg of heroin and 180,000 yuan of drug money.

On 17 April, public security organs of Guangdong and Yunnan cracked an extraordinarily large drug-trafficking case, capturing 39 Chinese and foreign drug traffickers and seizing 598.85 kg of heroin, 15 vehicles used in drug trafficking, one speedboat, more than 5 million yuan of drug money, and a large amount of stolen goods. The case involved the largest amount of heroin seized in a single case. Members of the drug-trafficking ring were from Guangdong, Yunnan, Guangxi, Fujian, and Guizhou; and leading members of the ring controlled and directed the ring's operations from Hong Kong. On 26 April, public security organs of Yunnan and Guangdong jointly cracked another major drug-trafficking case, seizing 148.75 kg of heroin.

On 18 April, while inspecting Taiwan fishing boat "Nanjipu" at the Weitou harbor, officers on duty from the border police station under the public security bureau of Fujian's Jinjiang city discovered 27 kg of heroin and arrested six criminal suspects.

On 22 April, the public security bureau of Guangdong's Huidong county seized 42 kg of heroin on fishing boat "Zhudan 5234" and arrested four suspects.

On 10 May, tipped off by the masses, the public security sub- bureau of Beijing's Xuanwu district cracked a heroin case that was the largest ever cracked in Beijing, seizing 11 kg of heroin, wiping out an extraordinarily large secret drug-trafficking center that had shipped the drug from Yunnan to Beijing for a long time, capturing six criminal suspects, and seizing more than 110,000 yuan of drug money.

While making unrelenting efforts to crack down on transit trafficking of drugs in bulk, all localities have taken measures to severely crack down on small-package drug vending, wipe out underground drug distribution centers, and force drug addicts to stop abusing drugs. Kunming's public security organs severely clamped down on small-time drug dealers and small-time drug wholesalers and middlemen. As of 20 May, the city had cracked 363 cases involving small-time drug dealing, arresting 378 criminal suspects, destroying 11 small-time drug dealing venues and 24 drug- abuse points, and arresting 1,412 drug addicts.

It has been learned that, in view of the new situation of drug- related crimes and problems in combating drugs, the National Narcotics Control Committee has decided to carry out in depth this year the nationwide ad hoc anti-drug struggle and to forcefully promote anti-drug education, in order to enhance the masses' anti- drug consciousness. At the same time, the committee will further tighten controls on narcotics, drugs for mental illness, and chemicals for making drugs and will take measures to strictly prevent these drugs and chemicals from entering the black market.

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General

*PRC: Labor Ministry Research Group on Employment Strategy from 1996-2005

96CE0279A Beijing GUANLI SHIJIE [MANAGEMENT WORLD] in Chinese 24 Jan 96 No 1, pp 191-198

[Report by the Labor Ministry's Labor Science Institute Task Force; Task Force director: Xia Jizhi (1115 4480 2535); Task Force members: Mo Rong (5459 2837), Wang Aiwen (3769 1947 2429), Zheng Dongliang (6774 2639 0081), Jin Weigang (6855 4850 0474), and Yue Wei (1471 1218): "A Study of China's Jobs Growth Strategy for the Next Decade"]

[FBIS Translated Text]

I. China's Employment State for the Next Decade

1. Our Overall Jobs Conflict Remains Quite Glaring, With a Severe Problem of 'Stealth Unemployment'

Roughly 160 million, or 26 percent, of China's current work force, is "stealthily unemployed" or underemployed. To accurately project our real work force supply and demand for the next decade, based on the production function principle, we have chosen GDP, investment of fixed assets [IFA], and social labor productivity [SLP] as our explanatory variables, using the nonlinear regression technique to build a mathematical model for labor force demand [LFD]. We chose three possible prospects for China's economic growth in the next decade, projecting in combination with our mathematical model, to find that by 2005, we will still have about 150 million surplus workers, or around 21.5 percent of our work force. With this projected surplus labor, or "zero-value labor," contributing nothing to output, being either openly or "stealthily" unemployed, as our market economy develops, our ratio of open unemployment will grow, possibly causing social unrest.

At the State Statistics Bureau, they project that China's GDP will grow at an average rate of 11.7 percent a year during the Ninth Five-Year Plan, the CASS [Chinese Academy of Social Sciences] project that our GDP will grow at no less than 8 percent a year during the 10th Five-Year Plan, or the plan-one rate, China's surplus labor problem will be somewhat better by 2005, down to 108 million. In line with the spirit of the Third Session of the Eighth NPC [National People's Congress] in 1995, that our GDP growth will be kept at 9 percent for the Ninth Five-Year Plan and 7 percent for the 10th Five-Year Plan, or the plan-two rate, by 2005 China will still have 152 million surplus workers, leaving the problem essentially not much better. And in light of the projection of certain CASS economists for China's GDP growth rate for the 10th Five-Year Plan, or the "plan-three" growth rate, by the year 2005, our surplus work force will still be around 152 million. For details, see Table 1:

Table 1. China's Projected Surplus Labor for the Next Decade

Plan	Values	1996	2000	2001	2005
Plan One	Annual Average GDP Growth Rate (%)	11.7		9	
	Surplus Labor (100 Million)	1.58	1.4	1.32	1.08
Plan Two	Annual Average GDP Growth Rate (%)	9		7	
	Surplus Labor (100 Million)	1.59	1.59	1.58	1.52
Plan Three	Annual Average GDP Growth Rate (%)	8		8	
	Surplus Labor (100 Million)	1.60	1.61	1.61	1.52

2. Our Structural Employment Conflict Becomes the Focus of Our Overall Conflict on Market Economy Terms, Ever Intensifying Our Labor Migration

As to our urban-rural employment mix, 74 percent of our work force are in rural jobs. But of our 450 million rural workers, only 150 million can be accomodated by our current agricultural resources. In addition, with township enterprises absorbing 120 million, overseas labor and business 50 million, and the diversified economy 20 million, our rural areas still have 110 million surplus workers, which is the major reason why rural workers are pouring steadily into our cities in search of jobs. Rural work force migration to

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economically developed zones, particularly cities, will be a fundamental characteristic of China's coming employment. As to our industrial jobs mix, primary industry has long accomodated 55 percent of our work force, with secondary and tertiary industries absorbing the other 45 percent. As our ratio of primary industry workers to all workers is 34 points higher than its ratio to our GNP, adjustment of our industrial structure is bound to bring a shift of workers from primary to secondary and tertiary industries. The projection of our mathematical model is that by 2005, China's tertiary industry workers will account for 38 percent of our whole work force.

As to our enterprise jobs mix, as large enterprises now account for a sizeable percentage of our jobs, with such enterprises accounting for a large number of surplus workers, they are going to contribute less to our future employment. That means that medium and small enterprises will become a growth point in China's coming job structure. As to our regional jobs mix, economically developed regions such as the Chang Jiang and Zhu Jiang deltas are under less job pressures. That creates the terms for workers from undeveloped regions to get a share of their [developed regions] jobs. In short, as China is going to be in a period of industrial structural change in the next decade and, as our former industrial structure was irrational, China's employment mix is going to undergo sharp change, inevitably resulting in broader work force mobility and a faster migration rate.

3. Conversion of Our Employment Forces Raises Unemployment, Bringing More Job Flexibility

As our employment forces [mechanisms] are converted, China's current large surplus work force is likely to join the ranks of the openly [officially] unemployed. From 1992 to 1995, as our unemployment rate climbed from 2.3 percent to 2.8 percent, our unemployment relief recipients increased from 1993's 1.03 million to 1.87 million by 1994. As economic reform is intensified steadily, with enterprise bankruptcy forces coming into normal operation, in addition to the enterprise overstaffing problem having to be solved through reform, the trend will be toward "stealth unemployment" becoming open, and for rising unemployment figures.

All sorts of job forms such as part-time work, temporary work, timework, flexible work, work in stages, piecemeal work, and irregular sector employment will all have broad growth prospects. In particular, iregular sector jobs, work in stages by women, and second jobs will all play a crucial role in invigorating our employment forms, which will make Chinese jobs much more flexible.

Along with the conversion of our job forces, China's job management system will remain in a period of transition from old to new. With China's past management system grounded in administrative means such as package employment and urban-rural separation gradually losing its functions, while the new management system is still unsound — with the framework of an integrated urban-rural employment system and a special group employment support system still not essentially formed, particularly lacking effective support in the areas of organization, funding, and administrative means — gaps will be left in our jobs management system.

4. The Relation of Jobs to Our National Economic Development Grows Ever Closer, With the Search for Labor Resources To Develop and Use and Coordinated National Economic Development Becoming Pressing Matters

On market economy terms, jobs hinge mainly on the scale and rate of economic development. Enterprise labor demand is "derived" from the goods and services enterprises provide to the society. On such terms, jobs stand in a very close relationship to national economic development. From this we can infer that as the Chinese economy grows more market-oriented, jobs will stand in an ever closer relationship to national economic development

As to economically developed regions such as the Chang Jiang delta, economic growth will steadily increase their labor demand, leaving their local labor supply no longer able to meet their economic growth needs, which means that they will have to attract workers from other provinces. And as it is projected that the Chinese economy is going to remain in a high-growth period for the next decade, that labor supply shortage in developed regions will present a favorable opportunity to solve the problem of surplus enterprise personnel. Meanwhile, the ever closer relationship between jobs and economic development means that enterprises will also urgently need to solve the problem of surplus personnel that evolved under the "state monopoly" system.

The coming decade is going to remain a golden age for the development and utilization of China's labor resources. During this time, as China's labor resources will be in the prime of life, it will also present a rare opportunity for us to practice a strategy of substituting labor for capital, speeding up our economic development through developing and using our labor resources. Meanwhile, in light of our unequal economic growth terms, with different economic development models meaning different job absorption capabilities, we will need to actively search for a model suited to the

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coordinated development of China's employment and economic growth.

China's employment situation for the next decade will pose three basic tasks for China's employment work: 1) We will need to develop job opportunities for our huge labor resources; 2) We will need to adapt to our socialist market economy needs, developing a labor market and converting our employment forces, to establish and perfect a jobs management system on market economy terms; 3) We will have to comply with the development needs of industrialization and urbanization, gradually breaking out of our dual urban-rural work force mix. This will pose higher demands on our formulation of a jobs development strategy.

II. Key Thoughts on a Jobs Development Strategy

Solving China's employment problem will generally mean cultivating and developing a labor market as our priority, steadily intensifying labor reform, providing better employment service, proceeding to fully develop and rationally use China's rich labor resources, and practicing overall urban and rural planning, to develop our economy and increase jobs. That is our basic line of thinking. In line with the analysis of our employment situation and the projection of our employment prospects for the next decade, during the Ninth and 10th Five-Year Plan period, we should pursue four general development strategies to solve China's employment problem, or strategies to speed up job growth, convert our employment forces, raise our employment quality, and support employment difficulties.

Strategy 1. A Strategy To Speed Up Job Growth, or One Aimed at Coordinated Employment and Economic Growth, Solving the Jobs Problem Through Economic Development, and Actively Searching for an Economic Development Model of 'Low Input with High Employment'

While economic growth generally promotes the growth of jobs, the contribution of economic growth to jobs differs with the economic development model. In the early 1980's, while our policy emphasis on supporting the development of our private economy and tertiary industry raised our jobs growth rate sharply, since the middle 1980's, our gap between economic growth and jobs growth has widened once again. While our ratio of GDP growth rate to jobs growth rate was 3.3:1 from 1978 to 1984, it had risen to 12.95:1 for 1985 to 1993. So to raise China's jobs growth rate, we need to proceed from the relations between jobs and economic development, searching out an overall line of development thinking for coordinated employment and economic development. As medium and small enterprises and labor-intensive industries have always been our main work force absorbers, we need to better develop them in the next decade into job growth points of scale. Meanwhile, tertiary industry is going to become another jobs size growth point. As it is projected that in the next decade, tertiary industry will add over 10 million jobs a year, with tertiary industry employment accounting for around 30 percent of our overall jobs in 2000 and reaching approximately 38 percent by 2005 to dominate our jobs size growth, we need to give it strategic consideration:

1. We need to formulate a development plan for China's medium and small enterprises and labor-intensive industries and enterprises for the mid-1990's to 2005, with the government pursuing an industrial policy to support its development. We need to seize the present golden opportunity for medium and small enterprise development, giving it a key standing in the government's economic development planning, and supporting it with economic means such as fiscal, financial, and taxation. On the other hand, local governments need to set up economic and technological development zones for medium and small enterprises, creating a favorable climate for their development. We need to form a stable group of medium and small enterprises as quickly as possible, to find a powerful center of resistance against future employment pressures.

2. We need to shift our focus in the transfer of our agricultural work force to small urban construction and tertiary industry development. From 1980 to 1993, China's farm work force ratio dropped 12.5 percent, while our urban work force ratio climbed only 1.6 percent. The experience of industrialized nations shows that a sharp gap between farm work force transfer and urbanization is bound to limit the scale and rate of farm work force conversion. Without support from urbanization, further township enterprise development will be very difficult. And on the other hand, unless our farm work force is concentrated in our cities, China's tertiary industry development will lack a key engine. So speeding up China's urbanization is of great urgency.

3. We need to develop community service industry in large and medium cities, turning it into a new growth point of China's tertiary industry. That means in detail that: 1) We need to separate enterprise-run social services from enterprises, handing them over to the communities where enterprises are located through compensated transfer forms such as leasing or auctioning; 2) We need to cultivate community service successors, gradually shifting the function of China's urban neighborhood organizations from administration to community service, and pursuing a preferential policy to en-

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courage the investment of private capital in community service industry.

4. We need to fully exploit China's labor resource advantage, emphasizing on one hand the favorable opportunity from now to early in the next century of our low labor costs, to build large-scale infrastructure projects in regions with more abundant workers and relatively lower labor costs. As the Chinese economy becomes more internationalized and our enterprises grow more competitive, we need to gradually shift our foreign trade policy focus to an export-oriented strategy, to bring China's labor resource advantage into better play. On the other hand, we need to set low minimum wage standards and social security levels, keeping labor costs from rising and, when the organizational terms are right, suitably ease our restrictions on labor migration from economically undeveloped to developed regions, keeping the labor market in developed zones competitive, to promote the substitution of labor for capital.

5. We need to open channels for the conversion of private funds into capital, increasing its investment in job growth points of scale. We recommend that: 1) We should reform our township enterprise operating system, going all-out to pursue the joint-stock system and all forms of the shareholding cooperative system; 2) We should use bond issues and government investment to build a small urban development fund; 3) In zones where outside labor is concentrated, we should set up special-purpose savings services to attract peasant worker deposits, to be used for small urban construction; 4) We should encourage the investment of foreign capital in small urban construction' [the building of small cities and towns].

Strategy Two: A Strategy To Convert Employment Forces, Starting To Form Market Employment Forces Suited to Our Socialist Market Economy, and Setting Up and Perfecting an Employment Management System Suited to Market Employment Forces

The conversion of our employment forces should be strategically focused on four areas:

1. We need to thoroughly reform our state monopoly system, expanding the market employment scope. During the Ninth Five-Year Plan, we need to reduce our ratio of state-monopoly employment to less than 5 percent of our new annual jobs, abolishing the system completely in the 10th Five-Year Plan.

2. To invigorate our employment form, we need to develop irregular sector employment based mostly in the private economy, as well as practicing part-time employment in our personnel units, to convert our employment forces. A quite effective way is to develop small enterprise and community service industry, to promote the economic development of the irregular sector. Personnel units could also practice part-time employment, for which there are two policy points: 1) We should encourge personnel units to create part-time jobs, to recruit part-time workers; 2) We should encourage workers to take up part-time occupations.

3. We need to make breakthroughs in disposing of state enterprise social burdens, acting in line with our modern enterprise system to better reform our social security system. Meanwhile, we need to speed up housing reform, integrating it with our establishment of a community service system, to gradually separate out to the society enterprise-run nonoperating welfare facilities.

4. We need to reform our package employment system, exploring routes such as cross-industry transfer and employment in other places for certain industries with employment difficulties. As to enterprises and industries that assume a heavy jobs burden (such as units with many surplus employees and sharp problems finding jobs for employee children), we need to increase government employment input, gradually lightening the enterprise job placement burden. And we need to stress faster development of individual job seeking.

Strategy Three: A Strategy To Raise Employment Quality, Premised on Converting Employment Forces to a Market Orientation, With the Pressing Need Being To Form a Jobs Development Model Grounded in Efficiency and Premised On Employment Quality, in Which Higher Employment Quality Means for the Individual Raising Their Work Quality and Competitive Awareness Per Se, for the Enterprise Placing Their Surplus Personnel Rationally To Raise Labor Productivity, and for the Society Upgrading, Replacing, and Optimizing the Jobs Mix

1. We need to find new ways to dispose of state enterprise surplus personnel, gradually evolving a surplus personnel placement policy grounded in separation to the outside. We project that in the first four years of the Ninth Five-Year Plan, our urban unemployment rate will remain relatively low at under 5 percent, while our tertiary industry will add a net 10 million-plus job opportunities a year. So grounded in controlling the rate of conversion of farm workers to the nonfarm sector and, in coordination with our overall reform pace, we could make the Ninth Five-Year Plan a favorable time for easing our state enterprise surplus personnel' problem. In the next two years, we should choose places with lower unemployment in

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which to experimentally explore practice and policy in the external placement of surplus personnel, in ways such as moving our state assets inventory to place state enterprise surplus personnel. Then from 1997 to 1999, we should sum up and disseminate our experience, to gradually solve the problem of state enterprise overstaffing.

2. We need to adjust our jobs mix, upgrading and replacing it. The basic problem with China's employment structure is that jobs are overconcentrated in low-level industry, causing relatively low labor productivity, while the surplus work force in low-level industry is also a very glaring problem. So to adjust our jobs mix, in addition to developing small urban community service industry, we need to invest more in infrastructures such as power and communications, to lighten our "bottleneck" industry limitations on further secondary and tertiary industry development.

3. We need to pursue a general labor resource development plan combining better work force quality with quality structural adjustment, to meet the need for invigorating the nation through scientific education. On the one hand, as to educational input, we need to invest more in skill development, giving the same crucial standing to skill development as to primary education, to gradually shift our educational input focus to job training. Meanwhile, we need to make skills training a basic industry, introducing market forces to education, to advance the private development of skills training. On the other hand, we need to gradually shift our skills training focus to rural workers entering secondary and tertiary industry, combining skills training with jobs mix adjustment.

4. We need to deal well with the three functional unemployment insurance relations of unemployment relief, jobs promotion, and unemployment prevention. We need to use unemployment insurance funds to help the unemployed find jobs on their own, increasing through reemployment projects the ratio of unemployed who find jobs on their own, to sharply raise that ratio in China during the Ninth Five-Year Plan.

Strategy Four: A Strategy To Support Employment Difficulties, Or the Pursuit of a Supportive Policy for Employment Difficulties To Help Solve the Employment Problems of Economically Backward Regions and Groups with Employment Difficulties, Which Would Be Aimed at 1) Curbing the Widening Gap in Unemployment Rates Among Regions and 2) Promoting Job Development for Special Groups

1. We need to invest more in regions with employment difficulties. From now to 2005, we need to pursue a "jobs promotion plan," which would be implemented in two steps. In the Ninth Five-Year Plan, we should make use of the job opportunities provided in our eastern developed zone, sending some urban and rural workers from central and western Chinese regions with employment difficulties to our developed eastern zone. Meanwhile, we need to combine the "project for the orderly migration of our rural work force" with conversion of employment difficulties and employment support. On the other hand, central and western China need to create an investment climate for private capital, to stop their regional capital drain. In step 2. during the 10th Five-Year Plan, we need to exploit the opportunity of the widening labor cost gap between undeveloped central and western China and our eastern developed zone, using the government's industrial policy to promote a western move of labor-intensive industry.

2. We need to shift our employment service focus to support of employment difficulties and special employment groups, pursuing a policy of employment support for special groups focused on age and unemployed time differences. As young first-time jobseekers are generally better educated than the unemployed and, as Chinese ageing will grow from now into the middle of the next century, we need to make a long-range strategy of doing all possible to help the long-unemployed and older unemployed find new jobs.

III. Short-Term Remedies and Suggestions

1. On Making Jobs Promotion a Fundamental National Policy, Combining Employment with Macroeconomic Development

As the labor employment conflict is certainly not a purely jobs problem, rather being interconnected with many macroeconomic factors such as system conversion and industrialization, a solution to the jobs problem needs more consideration from the macroeconomic perspective. A most fundamental matter is to proceed from our national conditions of abundant population and labor resources, treating a solution to our jobs problem as a prerequisite for the formulation of a socioeconomic development strategy, and giving jobs a higher status in government work, by breaking down the employment mission to the government formulation of all crucial policies such as economic growth, investment, fiscal, monetary, taxation, foreign trade, education, and population.

Macroeconomically, the government can take the following steps to promote jobs and reduce unemployment:

1) As to economic growth, investment, and industrial policy, we need to maintain stable IFA growth to promote sustained economic growth. Grounded in a

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sharp development of secondary industry, we need to invest more in tertiary industry, labor-intensive industry, and infrastructures such as power, transportation, and communications, keeping our annual IFA growth rate above 16 percent and 13 percent respectively for the Ninth and 10th Five-Year Plan periods, which will promote national economic growth rates of over 10 percent and 8 percent respectively for the Ninth and 10th Five-Year Plan periods, to create more jobs. 2) As to fiscal, monetary, and tax policy, we need to provide preferential support to job-producing industries, trades, enterprises, and regions, placing our support priority on tertiary industry, labor-intensive industry, and medium and small enterprises. Meanwhile, we need to provide the necessary aid to large and medium state enterprises. 3) As to foreign trade policy, we need to speed up our export of high added-value labor-intensive goods, while promoting all forms of foreign trade development. And we need to exploit our advantage of low labor costs to sharply develop our labor and service export cause. 4) As to education policy, we need to pay more attention to occupational skills development, developing short-term applied skill training, to give our work force the qualifications of being multiskilled, having a high quality, and suited to labor market change. 5) As to population policy, we need to focus our family planning work on rural areas, particularly on economically backward old, minority, border, and poor regions, where we need to exercise tighter family planning control.

2. On Actively Promoting Employment Marketization and Job Form Flexibility and Diversification

A. Faster labor market development.

As China's employment reform intensifies steadily, with market employment forces forming gradually, promoting employment marketization over the next decade will mean taking two steps: 1) We need to gradually adjust our labor supply and demand relations through the market, steadily easing our restrictions against dismissing state enterprise employees even due to objective production operation need; 2) We need to reduce as much as possible the scope of state job placement, not only pushing college and technical high school graduates toward the market for competitive employment, but also gradually introducing market employment forces to the placement of retired soldiers. In addition, we also need to break through as quickly as possible in the area of work force mobility the limits between urban and rural areas, regions, industries, ownership systems, officials and workers, and other social identities, to pave the way for the training and development of an all-dimensional, uniform, and open labor market.

B. On disseminating flexible and diverse job forms.

On one hand, the government needs to encourage enterprises to fully tap potentials, providing as many as possible job opportunities such as part-time, temporary, and flexible work. On the other, government and enterprises need to guide job seekers to change their job concepts, encouraging certain of them to take all sorts of jobs in the irregular sector. In addition, we might also choose a number of cities in which to conduct pilot programs in employment in stages by women and, once having achieved marked success, gradually disseminate them to other qualified regions.

C. On establishing a modern labor market information network to raise our labor market operating efficiency.

As a labor market is the basic means of disposing of our labor resources, we need to use labor supply and demand data collection, publication, and transmission to link up the supply and demand sides, to meet the goal of two-way choice and rational work force disposition.

3. On Efforts by Three Parties To Jointly Solve the State Enterprise Overstaffing Problem

Solving the state enterprise overstaffing problem will mean essentially changing our thinking, to make development and utilization our guiding ideology in placing surplus workers. We need to place our focus in placing surplus enterprise personnel on training, also putting our capital investment priority in that area.

A. We need to rationally delimit the employment responsibility of government, enterprises, and surplus personnel per se. We need to convert our former policy of mostly enterprise absorption to a combination of enterprise and social absorption with individual job seeking. During the Ninth Five-Year Plan, we need to gradually dissolve the direct liability of enterprises to place surplus workers, replacing it with that of providing training and reemployment organizational service. The government should be liable for providing funding aid. For instance, it could set aside some state assets for a job placement and training fund, as well as for an advance pension fund for surplus workers approaching retirement age, along with providing tax preferences to economic organizations placing surplus workers, to create job opportunities suited to surplus workers in labor service enterprises and production self-help bases. And surplus enterprise workers also need to find new job outlets through individual job seeking. We need to combine the placement of surplus workers with the dissemination of part-time jobs.

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B. We need to intensify our system of training for change of occupation and promotion of occupational qualification credentials. We need to encourage surplus enterprise workers to get training, with government funding support. A sizeable portion of reemployment project funds, subsidies to losing enterprises, and economic aid to enterprises in particular difficulty should be used for training surplus employees to change occupations. Once trained, surplus enterprise workers can be given priority in job introductions by the labor sector or private employment agencies, with as little administrative placement as possible.

C. We need to combine changing the status quo of enterprise-run social services with support for the development of labor service enterprises. In large and medium state enterprises, we need to gradually shift the enterprise-assumed social service function to employees to labor service enterprises, making labor service enterprises independent players in enterprise tertiary industry.

D. We need to persist in the principle of gradual step-by-step progress. Our order of priority should be first young unskilled workers and then older workers, with employees of enterprises in particular difficulties and personnel who cannot be placed through industrial structural adjustment first, and surplus enterprise workers due to too large enterprise establishment last. Grounded in getting to the bottom of the surplus worker situation, we need to draw up a separation plan for surplus enterprise workers for the Ninth Five-Year Plan, in an effort to essentially solve the problem of surplus state enterprise workers by the end of the century.

4. On Making Overall Urban-Rural Plans To Solve the Work Force Development and Utilization Problem

A. As there are now so many surplus rural workers, meaning that their employment problem is impossible to solve in the short term by transferring them to our existing cities, we need to develop and utilize them as much as possible on the spot in rural areas.

We need to intensify our in-depth development of agriculture and practice a suitable economy of scale for our land to solve the problem of low peasant income.

We need to fully develop and utilize our agricultural resources. While the development and utilization of these natural resources requires a large labor input, it also of course requires even more capital input. We need to encourage small urban construction through policy, encouraging the concentrated development of township enterprises, and building a large group of small cities and towns in rural areas, to gradually shrink the gap between urban and rural employment, by fully developing and utilizing our rural labor resources.

B. We need to better manage and serve the rural work force entering our cities.

China's current management system for rural workers entering our cities is essentially a casual worker management system. As such a management system treats the rural work force entering our cities as a transient population that can be called in or sent back upon demand, it is one of the roots of our disorderly rural work force mobility. But if we consider the matter from a market economy perspective, we will have to adhere to the principle of a unified labor market, treating surplus rural workers as an organic part of China's labor resources to be dealt with and managed.

Facing up to and solving the employment and subsistence problems of rural workers entering our cities is the key to promoting an orderly transfer of our rural work force. We now have over 50 million rural workers in transition each year, whose number is still growing. An orderly management focus should be primarily not on the "quantity" of new rural workers who join the ranks of those in transition each year, but rather on the "quality" of the work force from the rural areas that have already become an inseparable part of our urban economy. We need to focus on the long term, gradually solving the subsistence problems of the rural work force that is already working in urban jobs, considering their many problems such as urban settlement, housing, marriage, and children's schooling. That means building a better urban infrastructure, gradually stabilizing the employment and subsistence of workers entering our cities, to essentially resolve their unchecked and disorderly mobility.

We need to better manage the use of the rural work force by urban personnel units. Our focus on managing the use of the rural work force by urban personnel units is to ensure the legitimate rights and interests of rural workers entering our cities, guaranteeing them more steady employment.

C. We need to fully develop large and medium cities, expanding as much as possible their capacity to absorb rural workers. Except for a few large Chinese cities where we need to strictly control peasant access to city jobs due to excess population, we need to gradually ease our administrative restrictions against peasant access to urban jobs in our other large and medium cities, sharply developing their economies to expand their jobs capacity and urban living space. And we need to correspondingly reform our current employment, household registration, and social security systems, to

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bring into full play the role of cities in absorbing surplus rural workers.

5. On Sharply Developing Occupational Skill Training, Proceeding With Job Guidance Work on a Vast Scale

A. On providing the necessary funding support for developing the occupational skill training cause.

As to our training investment, we need not only to ensure that over 10 percent of our annual unemployment insurance fund outlay goes to job-conversion training, with 1.5 percent of enterprise payrolls being spent on training, and a certain percentage of state collected educational surcharges being set aside for training. But we also need to explore a feasible way to set up a training fund, with joint government, enterprise, and private fundraising, to form an occupational training fund with many levels, categories, uses, and channels.

B. On establishing a training system suited to our socialist market economy needs.

1) All occupational skill training agencies need to be made gradually independent, changing their state of administrative dependency and subsisting on "operating expenses," and forming an order of genuinely equal competition, to promote better training quality and a higher employment rate. 2) Our employment service work needs to provide better labor market information and employment guidance, promoting links between training agencies and the labor market, so that our training development is suited to the needs of our society. 3) We need to make our training market-oriented, dealing well with the relations between individual payment and government aid. Our occupational skills training needs to be market-oriented, with a general system of individual payment, to strengthen the sense of responsibility and independence of the workers themselves. The government and the society can provide aid to workers with difficulties such as the unemployed, employees of enterprises in particular difficulty, and low-income workers. But government aid should go mostly to individual workers, not involving a capital investment in training agencies, to keep from affecting the independence and competitiveness of training agencies.

C. On institutionalizing, disseminating, and regularizing our jobs guidance work.

Jobs guidance is a crucial part of employment service, with the occupation introduction' agencies in countries with market economies generally having one-third of their workers engaged in jobs guidance, while China's current employment agencies have just started such work. So on one hand, we need to gradually train and equip a group of specialized employment guidance counselors, while launching on the other widespread job guidance in ordinary high schools, specialized senior high schools, and technical schools, and among workers in training.

6. On Setting Up Advance-Warning and -Planning Systems for Unemployment, To Cope With Possible Unemployment Crises

A. We need to take coercive measures. For instance, when our unemployment rate reaches a crisis limit to create social instability, we could use executive order measures such as temporarily halting business-related cutbacks and layoffs, temporarily stopping our acceptance of enterprise bankrupty applications, controlling rural work force access to cities, and allowing some personnel to retire ahead of schedule, to reduce unemployment and ease jobs pressures.

B. We need to set up an unemployment contingency fund. When our unemployment numbers increase sharply, our unemployment insurance funds might get overloaded and be unable to ensure the subsistence of the unemployed. In particular, in light of the singular economic structures of some areas, if their enterprise production operations deteriorated, they might face crises of sudden rises in unemployment. So to cope with such possible emergencies, we need to set up a national unemployment contingency fund. While the fund could have diverse sources such as state revenue, unemployment insurance, and other funding, it ought to be a special-purpose one used only to deal with emergencies.

C. We need to develop employment bases. To place unemployed workers, providing temporary jobs, we need to develop a group of employment bases. A city could choose several bases, so that when needed, the government could provide aid from the unemployment contingency fund, to deal with the temporary unemployment of urban workers.

*PRC: Problems in Macroeconomy Viewed

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[Article by Li Xiaochao (2621 2556 6389): "Normal Macroeconomy Coexists With Problem-Plagued Microeconomy"]

[FBIS Translated Text] There are indications that the economy will continue to grow rapidly despite a steady drop in the rate of inflation. This reality should give us every reason to conclude that the economy functioned largely normally in 1995. There were, however, also problems and issues in the economy in 1995, including

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some serious ones that must not be overlooked. Worse, no consensus exists among the various quarters in society on these problems and issues, which may affect the orientation and choices of our macroeconomic policy. The fact of the matter is that it is extremely urgent for China to analyze the problems and issues comprehensively and make the right judgments.

Understand "Making It" Properly

We have largely achieved the goals of macroeconomic regulation and control put forward at the beginning of the year. In that sense the economy has "made it." However, the basis for making this determination is a tenuous one since the economy has yet to sail into ideal territory.

People from all walks of life agree that the macroeconomy as a whole operated essentially normally in 1995, but fail to see eye to eye regarding whether the macroeconomy has "made it." First of all, we must have a correct understanding of "making it." If we take "making it" to mean achieving the macroeconomic regulatory and control objectives set at the beginning of the year, then the macroeconomy has "made it" by and large, although the basis for its success is a weak one. If we interpret "making it" to mean steering into the ideal zone, then the macroeconomy has not fully "made it."

Suppose we take "making it" to mean realizing the regulatory and control objectives laid down in early 1995, then the macroeconomy did "make it" for all practical purposes, as indicated mainly by the following:

— China's GDP increased 10 percent or so in 1995, broadly in line with the economic growth target of about 9 percent put forward at the beginning of that year.

— The social commodity retail price index climbed 15 percent last year, the same as the goal put forward earlier.

— The money supply (M_1) grew 20 percent in 1995, again coinciding with the growth rate projected early in the year.

Although the macroeconomy achieved the regulatory and control objectives put forward at the beginning of the year and so has "made it" in that sense, its claim to success is a tenuous one for the following reasons:

Inadequate grain supply potential and low agricultural productivity. Since inflation is the best indicator of whether an economy is operating ideally, that there has been inflation indicates that economic operations indeed have not been ideal in recent times. Analyses suggest that the relative shortage of grain supply potential and low agricultural productivity are among the main culprits. The relative shortage of food supply potential expresses itself mainly as a decrease in and comparative lack of per-capita cultivated land. In 1994, per capita cultivated land in China was 1.2 mu, down 0.1 percentage points from 1991, the first year under the Eighth Five-Year Plan, and a mere one-third of the world's average that year, which was 3.6 mu. Agricultural productivity is low primarily relative to what the economy as a whole has achieved and has been inching up ever so slowly.

It is precisely the shortfall in grain supply potential and low agricultural productivity that have made soaring grain prices the hallmark of the recent bout of inflation, which goes a long way toward explaining why economic operations as a whole have been less than ideal. Since these existing problems were not resolved through macroeconomic regulation and control in recent months and also because grain has a big impact on prices, we can only say that any conclusion that the macroeconomy has "made it" rests on shaky ground. This point must be taken most seriously.

Investment demand potential is enormous. The Chinese economy is primarily investment-demand-driven. This is a salient feature of economic growth in China at the present stage. Strong economic growth depends on a robust investment demand, but economic overheating is often the result of an overheated investment demand. This is clear from the way the economy has been behaving since reform got under way. Therefore, to determine whether the success of an economy which purportedly has "made it" rests on a strong or fragile basis, an important criterion is the stability of investment demand.

Investment demand potential will remain relatively strong in the near future. First, it will take a huge amount of investment to develop the tertiary industry. Second, it will also take substantial investment to finance capital construction in agriculture. Third, industrialization is investment-intensive. Fourth, equally investment-intensive are housing construction and others.

A large investment demand potential indicates that economic growth in China has formidable staying power, so the potential for growth is substantial. On the other hand, a large investment demand potential also hints at a sizeable demand potential. If we fail to regulate and control just right, there is a strong possibility that the entire economy may become unstable. When macroeconomic regulation and control is not imposed with the appropriate degree of forcefulness, a large investment demand potential may bring on economic instability. In this sense too the basis for the economy's success — its "making it" — is a fragile one.

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It is true that the macroeconomy "made it" last year in the sense that the macroeconomic regulatory and control objectives set in early 1995 were achieved. However, inflation is still high, unemployment pressure remains enormous, enterprise profitability has not improved appreciably, and the structural problem is still a glaring reality. All of that makes it clear that macroeconomic operations have not yet sailed into the ideal zone of healthy, rapid, and stable growth. In that sense the macroeconomy has yet to "make it."

Macroeconomy Basically Sound, Microeconomy Problem-Ridden

The incongruity between a normal macroeconomy and a problem-ridden microeconomy is inevitable at the present stage as the market economy is expanding its share of the Chinese economy. What brought this inconsistency to the fore and magnified it was a belt-tightening macroeconomic policy and bank reform in the form of commercialization.

One phenomenon in economic operations in 1995 has caused concern. On the one hand, the economy was running fairly smoothly, the macroeconomic policy was enforced with the right amount of rigor, the inflation rate kept falling, and macroeconomic operations were essentially normal. On the other hand, enterprises were strapped for funds, their profits declining, and their products not selling well on the market. Hence the dichotomy between normal macroeconomic operations and a problem-ridden microeconomy. We may say this contradiction arose after the belt-tightening macroeconomic policy was introduced. In the final analysis, though, the incongruity is the product of the expanding share of the market economy. Right now the pattern of the economic structure in China is such that it has led to uneven development among the principal microeconomic players, namely enterprises. Successful enterprises have been doing better and better while troubled ones have never been in worse shape. Meanwhile bank commercialization has only reinforced this trend.

Ownership mix. An outstanding characteristic of the changes in ownership system in China in recent years is the steadily shrinking share of the state economy and the sustained expansion of the individual economy and other economies.

Regional economic structure. There have been significant changes in the regional economic structure as well since China launched reform. Most strikingly, the coastal economy has been developing faster than that in the interior, the economy in eastern China has been developing more rapidly than its counterparts in central and western China, and the southern economy has outperformed that in the north.

Monopolistic industries versus competitive industries. It is essential for monopolistic industries to keep their monopoly to a certain extent. It is the policy of the government to ensure that monopolistic industries achieve the average return in society. More importantly, however, it is government policy to prevent them from reaping so-called monopolist profits, which militates against the healthy development and perfection of the market economy. Nowadays, and particularly since 1995, monopolistic industries in China, such as power, posts and telecommunications, and foreign trade, have been chalking up profits faster than competitive industries.

Opening up to the outside world and the domestic economy. Opening up to the outside world is critical to accelerating economic development. An economy must be opened up if it is to develop; this point has been verified by the experiences of many countries. China has become more and more open since reform got under way and the open policy was introduced. It is clearly much more open now than before.

We can thus see that since reform was launched and the open policy was introduced, there have been striking changes in China — in the ownership mix, in regional economic structure, in the pattern of monopolistic industries and competitive industries, and in China's openness to the outside economy. We should affirm that these changes have been tremendously important for invigorating the economy and spurring economic growth. However, as the market economy takes shape and accounts for a rising share of the economy, it also confronts the microeconomic players with a unified market and unified prices. Yet these myriad players all have different starting points and vary in their circumstances and environments, differences and imbalances which have gradually been laid bare and magnified by the above-mentioned changes. On the one hand, successful enterprises are doing better and better, propping up the entire economy, and giving an air of normality to economic operations overall. On the other hand, troubled enterprises have never been in worse straits. Their profits keep slipping and they are short on funds. Hence the problem-ridden microeconomy, which is in stark contrast to a macroeconomy that has been running normally for all practical purposes.

It is evident from the preceding paragraphs that behind this contradiction is a deep-rooted background. However, two factors were necessary to bring it to the fore and magnify it: the tightening of the macroeconomic policy and bank reform via commercialization.

When the macroeconomic policy was tightened, it became harder to secure funds and the money supply was scaled back just as the imbalances among the microeconomic players became sharper and wider. The inevitable result was a relative shortage of total funds available to microeconomic players. At the same time, bank commercialization was proceeding apace, which means that profit maximization has now become the raison d'etre of commercial banks. To maximize their returns, banks must do one thing — channel what limited funds they

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have into the more successful industries and more profitable enterprises whose products are sought-after on the market. For the successful enterprise, this is icing on the cake. Commercial banks would never put their funds in ailing industries or unprofitable enterprises which may have difficulty repaying their loans. As far as the troubled enterprise is concerned, this is a case of adding insult to injury. The upshot is that successful enterprises have been doing better and better while their beleaguered counterparts are in the worst shape ever, ultimately manifesting itself as the contradiction between a macroeconomy operating normally and a troubled microeconomy.

We can see from the above analysis that the current incongruity is caused in part by negative factors, such as the mix between monopolistic industries and competitive industries, and in part by measures that are imperative at the present stage, such as increasing the share of the market economy, tightening the macroeconomic policy, and commercializing banks. Other factors are also involved, including the ownership mix, regional economic structure, and the opening up of China, which need to be examined in greater depth. For this reason, the contradiction between a basically sound macroeconomy and a trouble-ridden microeconomy is the microcosm of a plethora of economic problems and changes. We must not make the mistake of taking it so seriously that we repudiate the role of tightening the macroeconomic policy in ensuring a healthy economy and denying the inevitability of bank commercialization. On the other hand, we must not succumb to the tendency to sweep under the rug the problems that this contradiction has laid bare, notably the burden on the state economy; the conditions of development and environments of central, western, and northern China; the monopolist profits of monopolistic industries; and the impact of the open policy on the domestic economy.

Causes of Incongruity

There are of course many reasons why the basis for the success of the macroeconomy is weak and many explanations for the incongruity between a basically normal macroeconomy and a problem-plagued microeconomy. However, an important reason is the lack of the necessary regulation and control of a macroeconomy where social funds overall are not properly distributed and interests tend to be departmentalized. Another reason is the failure to address promptly the problems that occur in the course of economic development.

Since reform was launched and the open policy was introduced, the movement of social funds in all China has changed markedly in response to the needs of reform. The result is that the pattern of social funds has also shifted significantly.

Let us compare the ups and downs in the control exercised respectively by the government treasury and banks over social funds. We can see that since reform began, the share of social funds under treasury control has been declining while that under banking control has been expanding gradually. The inevitable result of this shift in the pattern of social funds is the growing reliance of macroeconomic regulation and control of the monetary policy, accompanied by a notable weakening in the regulatory and control function of fiscal policy.

The macroeconomy has "made it" but the basis for such success is a shaky one, as noted above. The microeconomy is full of problems, in sharp contrast to the macroeconomy which is functioning normally by and large. To a large extent, these two phenomena are intimately related to the heavy reliance of macroeconomic regulation and control of the monetary policy, which, in turn, has resulted from the shift in social funds.

1. The shortfall in grain supply potential and low agricultural productivity are the principal signs of the weak basis of the success of the macroeconomy. And the root cause of both problems is insufficient agricultural input, among other things.

2. Among the various economies in the ownership mix, the state economy is in dire straits primarily because it is saddled with an excessive economic burden and unable to compete with other economies. The only way to relieve the state economy of its burden is through the fiscal policy.

3. Apart from the policy factor, imbalances in the regional economic structure must be attributed to differences in natural conditions and resources. Again the problem here can be resolved only through the fiscal policy.

4. Monopolistic industries have an appreciably higher return rate than their competitive counterparts. The main reason is that in their pursuit of profits, industrial departments have failed to set limits on monopolistic industries or to ensure fair competition among competitive enterprises effectively.

5. As China becomes more and more open to the outside world, the domestic economy will necessarily be impacted by the international economy. However, a number of industries such as iron and steel have been hit hard by the foreign economy. The main reason is the absence of effectual regulatory and control tools in the open policy area.

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Macroeconomic Regulatory and Control Policy for the Next Stage

In view of the above-mentioned problems in macroeconomic operations today, we think the macroeconomic regulatory and control policy in the next stage must adhere to this guiding principle — "strive to stabilize the intensity of regulation and control and focus on speeding up structural adjustment" — to achieve sustained, stable, and fast economic growth.

To strive to stabilize the intensity of regulation and control means to achieve the quantitative goals as part of the fiscal policy, particularly the monetary policy, based on the objectives and tasks of economic development.

First, stabilize the rhythm of actual economic operations. Begin by securing the head of the dragon, that is, the economic growth rate. Once you stabilize the economic growth rate, you stabilize the rhythm of economic development and, by extension, the paces of other facets of the economy, such as investment and consumption. In our case, the goal is to keep the economy growing at 9 percent or so through 1996. Next, we must decide on a proper growth rate for investment. Considering that investment currently provides much of the demand that drives the Chinese economy, it is necessary to keep investment expanding a little faster than the economy. In comparable prices, fixed assets investment in 1996 should increase about 12 percent. Finally, inflation must be limited to 10 percent or so. In modern economic theory, changes in the inflation rate are determined by three things: whether or not real economic growth exceeds potential economic growth, price expectations, and impact on prices. Because the economy is projected to grow at a rate within the potential economic growth range, it will have only minor effects on the inflation rate. In other words, changes in the inflation rate in 1996 will primarily be determined by price expectations and impact on prices. Based on our analysis of these two factors, it will still be a challenge to hold down the inflation rate to 10 percent in 1996.

Second, stabilize the rhythm of the operations of the macroeconomic policy. Stabilizing the rhythm of the operations of the macroeconomic policy is critical to our success in stabilizing the rhythm of actual economic operations and achieving the above-mentioned economic development goals and tasks for 1996. For starters, we must stabilize the economic growth rate and do everything possible to keep the money supply expanding at a rate commensurate with the economic growth rate. For all 1996, the money supply (M_1) should increase 20 percent or so. Second, the right measures, such as a firm adherence to the austere policy, must be taken to lower the public's price expectations. Moreover, go easy on price adjustment so as to soften the impact on prices.

Concentrating on accelerating structural adjustment means consolidating the basis on which the success of macroeconomic regulation and control rests and narrow the gap between a basically normal macroeconomy and a troubled microeconomy. The key is to sort out the economic structural problem that came to light in the course of economic operations.

First, increase the share of investment dollars going to agriculture. Besides checking the reduction in farmland, we should work to put an end to the grain supply potential shortage and reverse low agricultural productivity by transferring an appropriate amount of manpower out of agriculture and boosting agricultural investments. Agricultural investment is high on risk and low on return and takes a long time to pay off. Therefore, increasing agricultural investment really means increasing government investment in agriculture.

Second, accelerate the optimization of the ownership mix. When it comes to ownership mix optimization, what is critical is liberating one's thought and departing from traditional concepts. Whether or not the ownership mix is successfully optimized depends primarily on an economy's ability to come up with more goods and services, not changes in the share of a particular ownership system vis-a-vis others.

Third, work hard to achieve balanced regional economic development. We must promote balanced regional economic development without doing harm to the market economy. The foremost task for government here is to improve economic development conditions and environments in central, western, and northern China as well as the interior by, for instance, improving access to these parts of the nation through road construction.

Fourth, curb the monopolistic behavior of some industries. Monopolistic behavior has become increasingly flagrant in some industries in recent times, so much so that it is now affecting economic development adversely. The government should do what it must to prevent such behavior from worsening.

Fifth, take pains to cushion the domestic economy from the blow resulting from the opening up of the country. Opening up China is an irreversible trend. However, its adverse effects on the domestic economy must be taken seriously. Not only are domestic industries taking a hit, but they are doing so in an increasingly apparent way. Carefully monitor and neutralize the impact of the open policy on the domestic economy.

Sixth, work hard to adjust the pattern of distribution of social funds. The most serious effect of the improper

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distribution of social funds is to constrain macroeconomy regulatory and control ability. With macroeconomic regulation and control circumscribed, many problems that await solution are not properly addressed and the healthy development of the entire economy is hampered.

Table 1. Comparing Productivity in Primary Industry and Overall Economy (% change from year ago)

Year	1991	1992	1993	1994
Primary industry	-0.1	5.0	2.4	5.8
Overall Economy	6.3	12.2	12.1	9.5

Table 2. Industrial Output Share by Ownership System unit: %

Year	State industry	Collective industry	Urban and rural individual industry	Industry of other economic types
1990	54.6	35.6	5.4	4.4
1991	52.9	35.7	5.7	5.7
1992	48.1	38.0	6.8	7.1
1993	43.1	38.4	8.4	10.1
1994	40.0	40.9	11.5	13.6

Table 3. GDP Growth Rates of Eastern, Central and Western China (%)

Year	Eastern China	Central China	Western China
1990	5.1	4.2	5.1
1991	10.9	4.7	8.4
1992	18.5	12.6	11.2
1993	19.8	13.6	12.5
1994	16.6	13.7	10.3

Table 4. Imports and Exports

Year	1991	1992	1993	1994	1995
Total imports(in billions of yuan)	722.6	912.0	1,127.1	2,039.2	2,394.0
As % of GDP	33.4	34.2	32.7	45.3	42.8

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Table 5. Government Revenue and Bank Funds as Shares of GDP unit: %

Year	1978	1980	1985	1990	1991	1992	1993	19 94
Govt.Revenue/ GDP	30.9	24.0	20.8	17.9	16.7	15.6	14.7	11.6
Bank funds/GDP	4.9	10.2	11.2	17.7	17.5	13.7	28.8	25.8

Table 6. Macroeconomic Development and Policy 1996: Operating Goals and Tasks unit: %

GDP growth rate	9.0
Fixed assets investment growth rate(in comparable prices)	12.0
Inflation rate	10.0
Money supply growth rate(M_1)	20.0

*PRC: Development Research Center Researcher on Industrial Strategy

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[Article by Hu Zhangshun (5170 7022 7311) of the State Council Development Research Center: "Industrial Policy and Strategy for China's New Era of Industrialization"]

[FBIS Translated Text] China's industrialization strategy which began in 1952 was aimed at catching up with and surpassing developed countries. It is clear this has not been accomplished. The key to formulating the industrialization in the new period lies in determining at which stage of industrialization we are at now. From 1952 to 1978, China established the preliminary stage of its industrial system with a focus on heavy industry. From 1978 to 1988, light industry entered the stage of leading our exports, and the relationships among agriculture, light industry, and heavy industry tended to be more in harmony. From 1989 to 1994, although there were certain changes in the industrial mix, e.g., expanded exports in light textile industry, the infrastructure was strengthened and the construction industry developed, as represented by the growth of the real estate industry. However, Chinese industrialization has not passed the step of going beyond heavy industry, while at the same time it is faced with a variety of serious tasks, e.g., deleting "bottleneck" industries, making strategic manufacturing industries as prosperous as are the high-tech industries, etc. Therefore, this article will discuss the issuance of the new state industrial policy during the new period as well as several issues related to this.

I. Industrialization Strategy During the New Period and the Issuance of the State Industrial Policy

1. Industrialization Strategy During the New Period

A look at the changes in the proportion of Chinese commodity imports and exports from 1980 to 1993, shows us that Chinese industry imported finished products at an average 78 percent rate over that 13-year period, including "chemical and related products" at 13 percent, "finished products classified by raw materials" at 22.6 percent, "machine and transportation equipment" was 30.9 percent, making a total of 66.5 percent for the three items. We can see from this that Chinese heavy industry is heavily reliant on imports. A look at the changes in Chinese imported and exported commodities for the period 1987 to 1993 by the first fifteen-digit amount shows the greatest volume of Chinese imports is still heavy industrial products. This reflects the gap between the Chinese industry mix and that of the developed nations. A boom in heavy industry is still an absolutely essential part of China's industrialization strategy during the new period.

China is a developing country, and the main body of Chinese industry, its basic and heavy industries are still in the developmental stage, i.e., the "import substitute" stage. Only the light textile industry entered the early stages of maturation after the focal nurturing and priority given to its development during the Sixth and Seventh-Year Plans, i.e., the "export direction" stage. Therefore, we must now give equal priority to protecting, nurturing and encouraging exports by strategic industry. One, protect and nurture strategic industries at the import substitute phase; two, encourage strategic industries in the export direction phase; three, promote continued expansion by those industries which were formally at the import substitute phase, and after a limited time and forceful protection, convert them to export direction industry (for instance, China's shipping industry). A conversion such as this would be of great significance.

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For developing countries, the strategic industries selected should have the following standards: 1) high demand income elasticity; 2) high rate of rising production; 3) high rate of reliance on imports; 4) high rate of reliance on exports; 5) decision by experimentation. There is a general trend to manufacture products with high income elasticity, in the expectation of a correspondingly high rate of growth in exports. To make these products fully competitive internationally, there must also be assurances that the rate of production will improve as well, and in the long view satisfying all of the aforementioned standards would be the perfect structure. For a developing country, a high degree of reliance on imports means there is a large gap between its own industrial structure and that of the developing countries, serving to remind it where it must focus its industrial strategy on the import substitute. So it can be used as an important standard to set the strategic industrial series. At the same time the degree of reliance on exports can point industrial strategy in the correct export direction.

Some of the above standards for strategic industries can similarly be arrived through calculations. Before we calculate this, it is necessary to explain how to apply these indexes. 1) While it is difficult to calculate the demand income elasticity for China, we can borrow the data for Japan between 1955 to 1965 as a reference. 2) The production rate of growth should be arranged for all Chinese industries in 1993 according to the all-personnel labor productivity rate, as well as take reference from Japan's data between 1955 to 1965. 3) The industry degree of reliance will be calculated according to the input and output table for 1987, while the degree of reliance on imports will take the average for between 1980 to 1989. Since it is very clear what major finished products are in the export direction stage, we did not calculate the export reliance degree. We skip the calculation procedure and data and go directly to conclusions, noting the strategic industries order or product zone that should be protected or fostered, as shown in Table I.

Table 1. Strategic Industries Protected and Fostered by China (Ranked in each column by decreasing order of strength)

Income elasticity (Japan, 1955 to 1965)	Rate of Increase in Production		Degree of Dependence on Industrial Imports (based on input and output calculation table of 1987)	Degree of Dependence on Product Imports (based on average figures for 1980-1989)	Experience and Principles
Japan, 1955 to 1965	Industrial Trade in China, 1993 (calculated by all-personnel labor productivity)				
Clothing	Clothing	Tobacco Processing	Aircraft and Other Transportation Facilities	Polyethylene	Steel
Household Items	Wood	Petroleum Processing and Coking		Medical Facilities and Equipment	Shipbuilding
Furniture	Wood Products	Ferrous Metals Smelting and Calendering	Instrument and Measuring Instrument Manufacture	Fertilizer	General Machinery
Interior Decoration	Furniture			Chemical Fiber Manufacturing	Complex Fibers for Textile Application
Printing	Interior Decoration	Chemical Fiber Manufacturing	Ferrous Metals Smelting and Calendering		Chemical Industry
Publishing	Chemicals	Nonferrous Metals Smelting and Calendering	Electronic and Telecommunications Facilities Manufacture	Soda	Automotive
Chemicals	Petroleum			Finished Steel Materials	Petrochemicals

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Income elasticity (Japan, 1955 to 1965)	Rate of Increase in Production		Degree of Dependence on Industrial Imports (based on input and output calculation table of 1987)	Degree of Dependence on Product Imports (based on average figures for 1980-1989)	Experience and Principles
Japan, 1955 to 1965	Industrial Trade in China, 1993 (calculated by all-personnel labor productivity)				
Petroleum	Coal Products	Petroleum and Natural Gas Exploration	Machinery	Television Sets	Atomic Energy
Coal Products	Leather Products		Sawn Material Processing and Artificial Board Manufacture	Automotive and Automotive Chassis	Aircraft Manufacture
Steel	Metal Products	Food Processing			Electronic Computers
Metal Products	General Machinery	Electronic and Telecommunications Facilities Manufacture	Ferrous Metals Smelting and Calendering	Pulp	Semiconductors
General Machinery	Means of Transport			Paper and Paperboard	Superconductors
Electrical Machinery	Others	Medicine Manufacturing	Wood and Wood Recycling	Logs	
Means of Transport		Transportation and Shipping Facilities Manufacture		Medicine	
Precision Instrumentation		Electrical Machinery and Instruments Manufacture	Manufacture of Equipment for Cultural, Educational, Athletic and Artistic Use	Machine Tools	
			Tailoring	Sodium Hydroxide	
Others		Chemical Materials and Products Manufacturer	Shipbuilding	Heavy Electrical Equipment	
		Rubber Manufacturing	Chemical Industry		
		Plastic Products	Automobile Manufacturing		
		Metal Products	Chemical Fibers		
			Papermaking and Paper Products		
			Nonferrous Metals Mining		
			Nonferrous Metals Smelting and Calendering		
			Electrical Machinery and Instruments Manufacture		

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Income elasticity (Japan, 1955 to 1965)	Rate of Increase in Production		Degree of Dependence on Industrial Imports (based on input and output calculation table of 1987)	Degree of Dependence on Product Imports (based on average figures for 1980-1989)	Experience and Principles
Japan, 1955 to 1965	Industrial Trade in China, 1993 (calculated by all-personnel labor productivity)				
			Forest Industry		
			Medicine Industry		

In general, while the Chinese processing industry has a very large production capacity, its ability to process at a high level is very weak. The above discussion mentioned that the strategic industry (or product) zone is the direction to refer to in building the ideal future industrial structure for China. For more than a decade now, China has on the one hand regulated the principal relationship among agriculture, light and heavy industries, giving priority to developing light industry (while slowing down the development of heavy industry) as a "makeup class" for light industry. On the other hand, because popularization of the so-called new technology in the early 1980's has attracted our vision, we tend to ignore the fact that our industrialization has skipped the step of developing heavy industry in reality. In the middle and late 1980's, theoreticians overemphasized development of tertiary industry while ignoring the fact that the overall quality of Chinese industry and its low technological level were far from what is needed for global economic competition. Therefore, we cannot skip heavy industry's current undeveloped stage, but must face the challenge presented by the new technology revolution. It is essential that we strengthen strategic industries prior to shifting the focus from heavy industry to tertiary industry; we will pay a high price if we do otherwise.

Therefore, beginning with the Ninth Five-Year Plan, the new era of China's industrialization strategy will be as follows: starting out from China's domestic situation and national capacity, realistically strengthen the agricultural foundation, and ensure stable growth for such important farm products as grain and cotton; nurture and develop agriculture through the production materials industry; continue to develop township enterprises, improving their qualifications and level as well as encouraging the use of industry as a supplement to agriculture. Focus on developing such infrastructural facilities and basic industries as water conservation, transportation, telecommunications, energy and important raw materials, so as to ease the limitations these vital sectors place on economic development. According to the principle of dynamic comparable interest, select the strategic industries to be fostered locally, i.e., the electromechanical and petrochemical industries, automobile manufacturing industry, aerospace industry, high-tech and construction industries. Through appropriate national protection and fostering of these industries, make them into pillars of the domestic economy, gradually achieving an industrial structure in China that is of high standard and surpassing initiative.

2. A New Era for Industrial Policy—Issuance of the State Industrial Policy.

Following Deng Xiaoping's speech during his 1992 inspection tour of south China, China's domestic economy entered a new period of rapid growth, with the GDP growing by 13.2 percent in 1992, 13.4 percent in 1993 and 11.8 percent in 1994. This fully demonstrates the impetus provided by opening and reform, and the potential of the Chinese economy for comprehensive development. This has especially been the case since the 14th Party Congress established the direction reforms will take in constructing the socialist market economic system, signifying that the market will play a fundamental role in resource allocation under state macroregulation. For this new era of economic development, the party central authorities proposed the "20-character principle", i.e., "seize opportunities, further reform, expand reform, promote development and maintain stability". At the beginning of 1994, it issued a succession of major reform measures in such fields as public finance and taxation, finance, foreign exchange, investment and pricing, and the results have been satisfactory. It is under these circumstances that China's industrial policy has also entered a new era.

The Chinese Government is fully aware that stipulating industrial policy is an important measure for strengthening and improving macroregulation, effectively regulating and improving the industrial mix, improving the quality of industry, and promoting the permanent, rapid and healthy development of the domestic economy. From the organization and institutional standpoint, clearly stipulated industrial policies are assuring.

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According to the State Council's organizational reform proposal which was approved at the first meeting of the Eighth People's Congress, the State Planning Commission listed "strengthening research, stipulating as well as monitoring implementation and coordination of the state industrial policy and major production force layout and regional economic development plans" as an area in which it must play a stronger role. It provided that its major responsibility would be: "In conjunction with relevant departments, study and issue national industrial policies, and coordinate and monitor their implementation, guiding and promoting a logical industrial mix". Correspondingly, it will establish "departments of long-term planning and industrial policy" within the State Planning Commission. The reorganized State Economic and Trade Commission also stipulated as its major responsibility "participation in stipulating and implementing national industrial policy overall planning and industry structural policy and regional industrial policy. In concert with relevant departments, stipulate and coordinate relevant national economic policies, chiefly industrial organizational policy, industry technology policy and industrial policies which are relevant to specific industries, transport, commerce and trade as well as organize policy implementation, inspection and investigation". It will correspondingly establish a "department of economic policy coordination" within the State Economic and Trade Commission.

On 25 March 1994 the 16th standing conference of the State Council examined and passed the "Outline of National Industrial Policy for the 1990's" (hereinafter referred to as the "Outline"), as the guidelines and basis for stipulating various industrial policies in the future.

The "Outline" stipulates that national industrial policy must adhere to the following principles: 1) compliance with the objective laws of industrialization and modernization, linked closely with the characteristics of China's situation and changes in the industrial structure; 2) meeting the demands of establishing the socialist market economic system, bringing the market's fundamental role in resource allocation under state macroregulation; 3) emphasizing key points, concentrating on resolving the major issues related to the overall situation of the domestic economy; 4) characterized by operational feasibility, and chiefly through economic, legal, and necessary administrative means guarantee the implementation of industrial policies, supporting development of industries and products which have a short history while suppressing those of longer lineage.

The "Outline" notes that the nation's industrial policy in the 1990's must resolve these issues: 1) continued strengthening of agriculture's fundamental status to comprehensively develop the rural economy; 2) vigorously strengthen basic industries, making the best possible effort to change the backwardness of infrastructural and basic industries; 3) accelerate development of pillar industries to drive overall prosperity of the domestic economy; 4) logically regulate structure of the export-oriented economy and trade, strengthening the international competitiveness of Chinese industry; 5) accelerate development of high-tech industry, supporting the development of new industries and products; 6) continue vigorous development of tertiary industry. Meanwhile, we must perfect the industry organizational structure, improving the level of industrial technology and making the industrial layout more rational. The "Outline" also sets out the procedure for stipulating and implementing industrial policy.

On 27 June 1995, with the approval of the State Council, the State Planning Commission, the State Economic and Trade Commission and the Ministry of Foreign Trade and Economic Cooperation jointly issued China's "Provisional Regulations Directing Foreign Investment" and "Industrial Catalog For Directing Foreign investment". These are intended to: make industrial policy more transparent; guide foreign investment into those industries that China urgently needs to develop; spur perfecting of the foreign investment structure; make foreign investment better synchronized with development of China's domestic economy and regulation of its industrial structure while helping to maximize the efficiency of foreign investment in China.

II. The Direction of Chinese Industrial Policy In the New Era and Its Relationship to Regional Development

1. The Direction of Industrial Policy in the New Era—Intensify Heavy Industry and Knowledge of Technology.

It is true that China has established the socialist market economic system and the market system will become a basic force in allocating resources. But before a mature and developed socialist market economic system can be built up in China, the government's intervention role should not only not be weakened, it should be strengthened. It should fulfill the massive assignment of industrialization strategy in the new era, especially through implementing the industrial policy. It is difficult to imagine entrusting such a hugh mission as industrialization strategy in the new era to a market force which is far from the maturity required to do the job. We must strengthen the role of industrial policy by compensating for the "vacuum" a weakened planned economy has created by reducing the state's force in economic intervention. Of course, we must integrate the basic force of the market system with the function of industrial policy.

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For China's light textile industry, which has already entered the export directing stage and has competitive advantages, we should do our best to free the market, letting textiles compete freely on the market. But for key sectors of the basic and strategic industries, the state must nurture them through industrial policy and vigorously push their development. The new stage of industrial policy must be centered around industrialization strategy in the new era in China, clearly directed toward "developing heavy industry" and "intensifying intellectual technology".

Since 1978, China's industrial structure has been characterized by significant development toward "developing light industry". It was logical in the 1980's to make development of light industry a priority, and in fact there has been great achievement in this area, harmonizing the ratios among agriculture, light industry, and heavy industry. However, it cannot be denied that development of heavy industry was slowed. Development of such heavy industries as mining and raw materials fell behind schedule, while such processing industries as machine facilities and household electronics appliances developed ahead of schedule. Basic industry acquired new production capacity slowly, resulting in severe shortages of energy resources, fertilizers and steel materials. But inside the processing industry, the consumer materials industry and the general machine manufacturing industries, production growth grew at a much faster rate than did the heavy machine equipment manufacturing industry; the machine equipment manufacturing industry is also characterized as developing toward "light industry". In a large country the size of China, in a situation where heavy machine equipment lags severely in development, or must rely heavily on imports of heavy machine equipment, it is hard to imagine we can improve the international competitiveness of those products. Production of high-tech, sophisticated, and advanced heavy machinery and electronics equipment is reflective of a nation's economic and technical level. Lagging development in heavy industry leads to high-volume imports of energy resources, raw material, etc., and blocks steady economic growth. Meanwhile, it will damage the foundations of economic development over the long run. While China made development of heavy industry a priority before 1978, expansion of the scale of production was accomplished through large basic investment, there were no fundamental changes in the technical structure of major production sectors, and the priority given to heavy industry at that time ignored harmonizing industries. Industries grew chiefly in the volume of their products but slow technological progress resulted in no significant improvement in their internal product quality, product cost, etc.

Now, after 17 years of opening and reform, China has acquired a definite physical and technological foundation. Proposals for "developing heavy industry" and "intensive" development are appropriate, and it will be possible to achieve our goals through out efforts. With reform of the Chinese economic system and the development of the socialist market economy, the market system will serve to improve the economic technology connection among industries. In this situation, the developmental direction of developing heavy industry and intensifying intellectual technology will not only hold back the coordinated development of other sectors, it will also create a better external environment for development of these other sectors. Looking at the international environment, since the end of the Cold War, the United States has actually tried to adopt a strategy of "comprehensive containment" of China. For its national defense and security, and to maintain its initiative as it enters 21st century economic competition I propose that in this new era China should follow the industrial policy direction of "developing heavy industry" and "intensifying intellectual technology".

To establish a leading industry which will upgrade the industrial structure, propel a booming economy, and catch up with developed countries, we must first of all establish the standards for selecting the leading industry. In the current era of economic development and catching up, the standard for selecting China's leading industry should consider the following several points while taking reference from Japanese experience.

One, as we pursue a booming economy, we must take income elasticity as one standard for choosing the leading industry. This is because with the continuous development of the economy, the demand will grow for products with high income elasticity. At present, China's domestic economic boom has created a huge demand for such products as petroleum, power and steel materials. But there has been a serious shortfall in China in the development and production of petroleum, power and steel materials. So we should list energy resource and raw materials basic industries such as petroleum, power, and steel materials of energy source and raw material as leading industries for development.

Two, as we try to catch up with economically developed countries, we must list the rate of growth in the production rate as a standard and the energy saving standard as a standard for selecting the leading industry. This is because in order to successfully catch up, our products must be very competitive. At the same time, improvement of product competitiveness will have the prerequisites of improving the production rate and technological progress. Meanwhile, the majority of these products are in industries which are intellectual

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technology intensive. So we must vigorously develop intellectual technology intensive industry. In addition to the basic industries mentioned above, such industrial sectors as new automobiles, electronics, and machinery should be included as well.

Three, give fullest consideration to the distance between China's industrial structure and those of advanced countries, use the degree of reliance on imports as a reference standard in selecting the leading industrial sector for import substitution.

2. The Relationship Between Industrial Policy in the New Era and Regional Development.

Beginning during the period of the Ninth Five-Year Plan, China must establish an overall framework for each industry, especially laying out nationwide a key supportive strategic industrial production force. According to regional divisions and the principle of comparative advantage (including the dynamic comparative advantage), divide the nation into a national industrial development series by region, establishing a scale of industrial development and regulatory direction for the different regions. In addition, establish a key layout framework for Chinese regional economic development, selecting the key developmental zone for training growing power at the turn of the century.

Its higher technology and economic standing make the eastern region more capable of converting its structure. This region has excellent conditions for developing its markets to an even higher degree, so the focus of its industrial development should be led by technology, with vigorous development of new types of industry, industries which will earn foreign exchange, and high quality, high efficiency industries. The region should try to improve the status and level of its industrial structure, developing toward a high degree of processing and the type of industries which are chiefly intellectual technology intensive. We must reorganize our traditional industries and transfer them to the central and western regions. The keys to this lie in: 1) seizing favorable opportunities during the time when the world economic industrial structure is reorganizing, and participate in the division of the international economy; 2) increasing the value added to products to promote the multiple elements of the export market to a high degree; 3) being a zealous participant in regional economic cooperation in order to strengthen international competitiveness; 4) pay special attention to focusing on the north gulf coast area of Guangxi.

The central region has been a very important economic zone in the pattern of China's regional economic development. It is both a comprehensive regional domestic economic entity and a major support of the permanent, stable, and coordinated development of the nation's economy. It has rich resources and economic advantages. The scale of its economy is smaller than that of the eastern region but bigger than the western region, and its industrial structure is tilted towards heavy industry which is focused on rough processing of resource exploration. The central region is China's most important for production and outshipping of agricultural products and by-products, energy resources, raw materials, and major elementary products. It is China's vital commodity gathering, distributing, and information center in the inland region, and is an important base for training and producing scientific and technically talented people in China. The central region must take fullest advantage of its superiorities, trying to accomplish upgrading of its industrial structure to improve its regional comprehensive economic capacity and accomplish rapid economic and technological development. The keys to doing this are: 1) build a stronger agricultural production foundation, vigorously developing the grain and cotton production base and develop agriculture which is of high quality, highly productive and efficient; 2) continue strengthening the energy resource and raw materials industry represented chiefly by coal, power, metallurgy, petroleum, and construction; 3) strengthen the transportation and telecommunications industry, focusing on a transportation and telecommunications network; 4) pay attention to development of processing industries that focuses on improving the level of product processing and takes the electronics, machinery, food, and textile industries as its core; 5) accelerate scientific and technical progress to develop import substitute industries and high technology industries.

Since the birth of China, the country has input nearly 400 billion yuan into the western region. It has built up a huge industrial production force which chiefly covers basic civilian, military, and heavy processing industry. It has strong scientific and technological advantages for production of large-scale equipment and basic products. This is an important component of the Chinese equipment industry, and during the period of the Ninth Five-Year Plan, we must accelerate exploration of resources, construction of transportation and telecommunications, and renovation of technology in the large and medium-sized backbone enterprises of the west. The large and medium-sized backbone enterprises which exist in the west have great potential for producing large and medium-scale equipment and a series of equipment and investment-type products, earning foreign exchange through exports and developing high-tech products for import substitution. Meanwhile, during the central government's process of regulating the structure of large and medium-sized enterprises, we should take advantage of their radiative effect in the surrounding area to

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drive development of local medium and smaller-sized enterprises, as well as filter into the energy resource and raw materials industry to develop deep level mining of energy sources. Therefore, we must exploit the west's existing resource advantages in close cooperation with relevant industries of the eastern and central regions. This will play a major role in developing the important big equipment and peripheral equipment required for development of the domestic economy, renovating technologically backward traditional industries and achieving the goals of earning foreign exchange through export and saving foreign exchange through "import substitution".

According to the dot and axle theory of development, we must promote development through the conduct of reform and opening to develop and promote industrial structure and rationalize the layout of production forces. In the period of the Ninth Five-Year Plan and long-term development to 2010, China will form a key axle, a "T"-shaped structure represented by the coastal area and along the Changjiang River, taking as a strategic development zone the Gulf of Bohai, central and southern Liaoning, Beijing, Tianjin and the Tangshan area, the Shandong peninsula, Hainan Island and around the Gulf of Beibu, the Changjiang delta, the south Fujian triangle, the Pearl River delta, along the Jingjiu major railway and the Longhai railway as strategic focal developing zones. This will restore prosperity to the old industrial base of Northeast China and vigorously take part in the multinational economic and technological development along the Tumengjiang River. Meanwhile, we must accelerate the construction of a transportation and telecommunications network which will be the foundation for a national united market focused on constructing the comprehensive transportation system led by railways, and including highways, aviation, water transportation, and tunnel transportation.

III. Several Industrial Policy Issues Which Demand Attention During the New Era

1. Improving the Quality of Economic Growth To Promote the Rationalization of Industry.

Starting from the period of the Ninth Five-Year Plan, China will adopt fundamental changes in its long and medium-term economic development, turning to a form of economic growth aimed chiefly at improving the quality and efficiency of economic growth. Since reforms were implemented, the scale of Chinese industry has expanded rapidly, and production output of some production products has leaped to the front ranks globally. But economic growth in many localities, industries, and enterprises has relied for the most part on increasing input and expanding scale, in an external, rough sort of operating manner. The problems of low-production efficiency and low-economic efficiency have been unresolved for a long time.

In today's world, with a leading tone of "peace and development" in the international situation, each nation's capacity to compete comprehensively lies in its capacity to compete economically, represented in the quality of its products and services to compete in international trade. China's degree of reliance on foreign trade has reached more than 40 percent, but still has not fundamentally resolved its problems of low product class and quality. Especially during the market's transition to the socialist market economic system, "false, unreal, bad, and imitated" products have never been stopped successfully. This has had a serious impact on China's economic quality. There must be a great deal of attention given to quality control and to strengthening the entire nation's awareness of quality, for trying to give Chinese products a global reputation within five to 10 years will be a very difficult task.

In order to strengthen its international competitiveness, use its resources effectively, develop new types of industry, and promote the progress of industrial technology, China must make its industries more rational industrially. It must establish a system of large quantity production in major industrial sectors in the pursuit of solid economic efficiency, popularize the saving of energy and the comprehensive use of technology, hold a campaign to improve the rate of production, accelerate imports, absorb and digest advanced technology and equipment and renovate traditional industry. Meanwhile, we should combine scientific research and the market to push the rapid conversion of scientific and technical achievements into production forces in reality, combining the reform of establishing the contemporary enterprise system among state-owned enterprises, with rational industry the objective.

2. Establish an Industrial Technology Institute.

In order that science and technology may effectively make contributions to economic development, we should get more scientific and technical projects converted into production forces as early as possible, give strong support to the proposed direction of "developing heavy industry" and "intensifying intellectual technology", improve industrial policy in the new era from scientific and technical fields, and improve the degree to which scientific and technical research is related to industry. To accomplish this, it will be necessary to establish an industrial technology institute in China. The industrial technology institute will report to a comprehensive economic management department, for example, the State Planning Commission or the State

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Economic and Trade Commission. Its researchers may be recruited from the Academy of Science, the State Science and Technology Commission and overseas Chinese scholars. For details we can take reference from the background of Japan's Ministry of Trade and Industry's industrial technology institute.

3. Establish a Medium and Small Enterprise Bureau.

China's industrial policy is still focused on industrial structure policy, and has not formed a complete industrial policy system. China's medium and small-size enterprises have not been covered by the industrial policy; for example, the township enterprise, the dominant component of small and medium-sized enterprises, continues to grow in the market competition environment, but lacks policy direction. To implement a very regulated policy direction for the small and medium-sized enterprises which constitute the majority of Chinese industrial enterprises, and improve their quality, it is necessary to reorganize the township enterprise bureaus and the other institutions which are related to these bureaus. Regardless of whether they be township enterprises or urban, state-owned, collective or privately-owned enterprises, they will be classified according to their scale. As long as they fit into the medium and small-sized enterprise catalog, they will all be under the supervision of the Bureau of Medium and Small Enterprise and be subject to its policy direction. At the same time, the Bureau of Medium and Small Enterprise can exist as an external affiliate of the State Planning Commission or the State Economic and Trade Commission. Smoothing the state's system for managing small and medium enterprises will also benefit national industrial policy in carrying out regularized management.

4. Establish an Industrial Policy Examination and Approval Committee.

In order to investigate and examine national industrial policy, we must establish an Industrial Policy Examination and Approval Committee. Its membership will consist of experienced and knowledgeable people who serve terms of one or two years. This institute should also report to the department in charge of national industrial policy. According to a certain proportion, government departments, industrial circles, universities and research institutes and even each locality will send experienced and knowledgeable people to attend the committee's meetings.

*PRC: Export Quota Bidding System Analyzed

96CE0259A Beijing GUOJI MAOYI WENTI [INTERNATIONAL TRADE JOURNAL] in Chinese 6 Mar 96 No 3, pp 53-56

[Article by Song Pei (1345 3099): "A Brief Discussion of the Export Quota Bidding System." The author is affiliated with the Foreign Economic and Trade University.]

[FBIS Translated Text]

I. Significance of the Export Quota Bidding System

Implementing a quota bidding system for some export commodities is a creative step in the restructuring of the foreign trade management system; it is a bold experiment as we explore a scientific import-export management system that not only suits the socialist market economy but also complies with common international trade practices. It serves a real and important purpose in accelerating the restructuring of China's foreign trade system.

1. The export quota bidding system makes quota allocation more scientific and avoids subjectivity and arbitrariness. In the past, China's export quotas were allocated by administrative means. There was no strict, uniform standard in allocation, and adding the failure to accurately ascertain local needs, quota allocation often tended to be subjective and arbitrary. With the development of the market economic system, that method of allocation is no longer suitable, because it neither allocates the resources according to the principle of economic efficiency nor can it avoid the corrupt behavior which the process breeds. Under the quota allocation system, MOFERT [Ministry of Foreign Economic Relations and Trade] is responsible for drawing up the method, the chambers of commerce are responsible for its actual implementation, and a mathematical formula is used to compute the winning bids based on objective data, which makes quota management much more scientific and effectively reduces artificial interventions.

2. Export quota bidding brings in the mechanism of fair competition. Under the old planned economic system, quotas were allocated either according to state plans or on a first-come-first-served basis; it had a strong administrative protection overtone, and in particular, it lacked the ability to reward the good and punish the bad, reward the hard-workers and punish the slackers. It let some exporters monopolize certain export commodities and some manufacturers monopolize the production of certain export goods. It more or less calcified management and production and excluded competition, so that Chinese export goods and Chinese manufacturers had no

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motivation to improve quality or increase labor productivity. The export quota bidding system brings substantive changes, both in form and in content, to the old allocation system. The remunerated bidding system abides by the principle of "fairness, openness, competition, and efficiency" and applies a uniform policy to all foreign trade enterprises nationwide. It stipulates who may take part in the bidding, which includes all types of foreign trade enterprises and all forms of foreign trade methods. This allows the masses of exporters to obtain their quotas based on open regulations, uniform standards, and equal opportunities. It is fair to say that, to some extent, the quota bidding system successfully turns administrative allocation of quotas into a system of obtaining quotas through voluntary bidding and fair competition. This is an important step in China's gradual use of market economic principles to draw the country's foreign trade system closer to international trade standards.

3. The export quota bidding system makes management more transparent and aboveboard. China's export quota bidding process is open; the bidding method, qualification, procedure, and formula for computing the winning bids and so on are made public. This turns a less-than-open quota allocation method and process into an aboveboard system; everybody can monitor the bidding process.

4. Export quota bidding helps to to change the government's functions faster. Upon implementing the quota bidding system, the government departments' micro examination and approval process is less prone to be subjective and arbitrary, and instead of direct management, they turn to indirect control. This allows the government functional departments to concentrate their energy on planning, coordination, supervision, and service; it greatly enhances their macro management and regulation and control functions, blazing a new trail for the reform of import-export macro regulation and control mechanisms.

II. Continuous Efforts To Improve and Perfect the Quota Bidding System

The trial implementation of the export quota bidding system is a new endeavor, and inevitably there are problems in the process. To facilitate a smooth bidding process, China is continuously improving and perfecting the bidding method through legislation.

Upon reviewing the work in the first round of bids conducted in 1994, and taking into consideration the expanded scope of commodities open to bids in 1995, MOFERT announced the uniform "Detailed Implementation Rules on the Export Commodities Quota Bidding Method" on 24 August 1994 to replace the original detailed rules which put different commodities to separate bids. Other than the bid invitation, fee collection, transfer, certification, penalties and other operational procedures already stipulated in the "Method of Bidding" promulgated earlier, the "Detailed Rules" contained the following conditions as a supplement and improvement:

1. It stipulated the standardized operational procedure. In view of the lack of standardization in the bidding method and lack of coordination among the departments in the first round of bids, the "Detailed Rules" clearly delineated the responsibilities of MOFERT, the bid invitation committee, the bid invitation office and so on to standardize the bid invitation procedure.

2. It reasonably limited the number of bids put in by enterprises. In the first round of bids, many enterprises put in almost as many, or exactly the same number of bids as the number of commodities open to bids. This made prices a less important factor in who won the bids, as was intended in the "Method of Bidding," but accentuated the number of bids submitted, for enterprises that submitted many bids were able to win more quotas at lower bid prices. Therefore, the "Detailed Rules" stipulated that the bid invitation committee could take each commodity into consideration to limit the number of bids enterprises could submit.

3. It stipulated who was qualified to bid. In the first open bids, because enterprises' qualifications were not checked out carefully, some enterprises that had no export background nor export channels and clients actually won bids, thus disrupting the original export management channels. To reasonably protect the original management channels and limit the bidding as much as possible to enterprises with successful export experiences, the "Detailed Rules" stipulated that enterprises' qualifications would be carefully examined before bidding.

4. The average winning bid price was kept within reasonable limits. In view of the fact that in previous bids, some bid prices clearly were out of line with the normal price level, and to some extent, they distorted the average price of the quotas. The "Detailed Rules" stipulated that in calculating the average winning bid price, the weighted average would be used. This meant the exceptionally high bids that were clearly unrealistic would be disqualified, and in computing the winning bid prices, the two highest and the two lowest bids were also eliminated to make the winning bid price level more reasonable.

5. The "directional open bid" format was added. To avoid or ease the problem created by companies from the main production area and major enterprises bidding on the quotas, which would hurt the traditional trade channels, or similarly when the main production provinces or major enterprises in the "old revolutionary,

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minority nationality, frontier, and poverty-stricken" areas submitted bids, which could affect local economic development, the "Detailed Rules" stipulated that, because of deliberate policy bias, the aforementioned enterprises and areas could hold "directional bids." Commodities opened to such bids were goods whose management channels and production areas were concentrated in the "old revolutionary base, minority nationality, frontier, and poverty-stricken" regions as well as goods which the main production areas' enterprises had limited ability to compete in bidding for the export quotas. At the same time, to ensure that the entire bid process was just and fair and to protect the interest of all winning bidders, the "Detailed Rules" also stipulated that bid invitation would still be based on competition; the winning bid price could not fall below the average quota price in the first round.

The 1995 quota bidding proceeded in accordance with the regulations stipulated in the "Detailed Rules," and as a result, the winning bids for most commodities were higher; the percentage of winning bids from the main production areas and major enterprises were also higher. To further improve this quota bidding process, MOFERT adhered to the goal of developing a socialist market economic system, upheld the principle of uniform policy and fair competition, and targeted the problems in the second round of open bids to further revise the original quota bidding method and detailed rules. The revised "Export Commodities Quota Bidding Method" and its "Detailed Rules" were promulgated in April 1995. The new "Method" and "Detailed Rules" retained the basic principles and methods of the original rules and regulations but revised, supplemented, and improved certain articles:

1. Revising the method of calculating the winning bid price:

The main problem in the second round of bidding was that both the bid and winning bid prices kept spiraling upwards. If not curbed, this could diminish Chinese export's competitiveness in the international markets, making it difficult to sustain the export volume. Therefore, the new rules change the way the winning bid prices are computed: All bids that deviate from the normal price standard are disqualified, and upon computing the average bid price, a fixed percentage above and below the average price is delineated, and all bids within this range are deemed winning bids. The winning bid range for specific commodities is determined by the bid invitation committee based on international market conditions, domestic merchandise supply, the average cost of export, and other conditions which are determined and announced prior to the bidding. This changes the old situation where the higher bids were more likely to be the winning bids, and it keeps the winning bids around the reasonable price level, which effectively curbs the upward spiral of winning bid prices. The 1996 bids showed that the spiraling winning bid price problem was basically solved.

2. Perfecting the measures to keep the export channels relatively stable.

In view of the fact that major enterprises and enterprises from the main production areas bidding on the quotas tends to destabilize the traditional export channels, the new rules adopt some effective measures: a) The scope of commodities open to directional bids is expanded. That is, in addition to open bids, directional bids are invited for commodities produced by major enterprises or enterprises in main production areas, so that these enterprises have an additional opportunity to bid on the quotas, and at the same time, it ensures that the winning bids are from those two types of enterprises. b) Negotiated bids and invitational bids are used for some commodities. That is, a certain percentage of the quota is set aside for negotiated bids; the rest is put to open bids or invitational bids. Enterprises participating in the negotiated bids are basically guaranteed to win. c) The definitions of main production area and major enterprise are revised. In the original "Detailed Rules," main production area and major operating enterprises referred to the few largest enterprises that accounted for 40 percent of the production or export of a commodity. Since a single enterprise might produce or export the entire 40 percent of a commodity in some cases, that scope was too narrow. The new "Detailed Rules" redefine a main production area as one that accounts for 50-70 percent of the nation's total production of a commodity and the major operating enterprises as the few whose exports account for 50-70 percent of the nation's total export of a commodity.

3. Fine-tuning enterprises' qualification requirements to bid on the quotas.

In the original "Detailed Rules," all enterprises submitting bids had to qualify under the same set of conditions. Although that made the competition fair, it was impossible to meet the needs of unique conditions under different bidding formats. The new "Detailed Rules" stipulates a different set of qualifications for directional bids and negotiated bids: It stipulates that enterprises submitting these two types of bids must be the major enterprises managing the commodities or enterprises from a major production area, and they must have three consecutive years of actual export experience in those commodities. This greatly increases the chance of winning for those submitting negotiated bids; it plays an impor-

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tant role protecting the traditional export channels. At the same time, to avoid giving enterprises that participate in negotiated bids a life-time tenure, which tends to breed inertia, the new "Detailed Rules" specifically stipulates that enterprises that won negotiated bids but actually utilized less than 70 percent of the quotas are barred from further negotiated bids for one year. Enterprises that participated in other forms of bidding and actually utilized more than 90 percent of the quotas are allowed to take part in the next negotiated bid.

4. Regulating the transfer of quotas won in the bidding system.

To regulate the method of transferring quotas which enterprises fail to use up, and to make the transfer process aboveboard, the new "Detailed Rules" stipulates the following: Upon receiving an application to transfer or accept the transfer of a quota, the bid invitation office must immediately enter the information into the computer; the office must regularly announce the names of enterprises transferring and receiving the quotas; quota transfers are prioritized by price and date; the bid invitation office should promptly list the names of enterprises transferring and accepting the quotas for the bid invitation committee's approval; thereupon, the "Quota Transfer Certificate" may be issued.

In addition, the new rules and regulations also set the term for responding to charges of dumping, provide separate bids for different product varieties for some commodities, and stipulate fines for enterprises that waste their quotas. In short, the revised rules and regulations basically continue to augment and bring out the fair and just nature of the open bid system while resolving the problem of keeping the export channels relatively stable; they continue to encourage competition and raise export profit while trying to mitigate the bidding system's impact on the main production areas and the major companies; they curb enterprises' attempts to jack up prices as they compete for merchandise and cut price as they compete for market while preventing the bidding prices' continuous upward spiral that jeopardizes our exports' competitiveness; and they greatly improve and perfect China's export quota bidding effort and bring China's foreign trade management closer to the socialist market economic principle and international trade standards.

III. Results Produced by the Export Quota Bidding System

The export quota bidding system implemented for some commodities is an important part of the reform of China's foreign trade system, and although this experiment began not too long ago, it has already produced results and has played a positive role in helping to put China's export trade onto a healthy developmental track.

1. It effectively curbs the attempts to jack up procurement prices to compete for merchandise while cutting prices to make sales.

Jacking up procurement prices to compete for merchandise while cutting prices to make sales is an old and tough problem which China has always wanted to but has never been able to solve. It not only causes China to lose the profit it is entitled to but also continuously exacerbates trade conflicts with foreign countries; antidumping cases are increasing. The implementation of the export quota bidding system makes it much easier to tackle the problem. Customs statistics showed that among the 13 commodities opened to bids on a trial basis in 1994, except for a handful where prices failed to rise due to fraud in customs declaration and because of smuggling, the export prices of most commodities rose, at rates ranging from 4.2 percent to 89.5 percent. Because of the higher prices, the export of these 13 commodity categories earned $178 million more than in 1993. Of the 24 commodities opened to quota bids in 1995, the actual export price again rose significantly, ranging from 9.5 percent to 97.4 percent. The export transaction prices of some commodities are near their record high or are approaching the best price for those commodities in the international markets. Clearly, the open bid system is an important and effective way to raise China's product prices and increase exports to earn foreign exchange.

2. It protects our national economic interest.

The quota bidding system requires enterprises that won bids to pay for their bids, and on the surface, it temporarily increases the export cost, but enterprises are compensated for using the quotas, and to make up for the cost of the bids, they are more careful in accounting and try to lower the procurement cost and raise the export price. Practice in the 1994 and 1995 bids proved that the winning bid prices basically reflected that profits lost in enterprises' attempts to jack up procurement price and cut sales price in the past were not money taken from the hands of enterprises, and if not for the bidding system, that portion of the profit would have been lost to the intermediate links or drained abroad. This proves that the export quota bidding system not only increases enterprises' export profit but also protects the country's economic interest.

3. It promotes economies of scale in exporting.

In the two rounds of open bids in 1994 and 1995, enterprises' chance of winning [ZHONGBIAO MIANJI 0022 2871 7240 4480] averaged about one in three, and

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except in isolated cases where a weak enterprise actually won a bid, generally, because of fair competition, the superior managed to eliminate the inferior, and the quotas were concentrated in the hands of strong, experienced companies. This changes the old situation where quota allocation was spread out in an egalitarian gesture, and it promotes the large-scale operations of some commodities that are under the quota system to develop economies of scale. For example, in the past, China's raw materials and mineral products exports were managed by many small, unprofitable companies. Before installing the bidding system, we could not solve this problem; no company could be eliminated. But with the bidding system, the number of companies is reduced, which reduces the attempt to cut price to make sales because of excess competition. Neither the export volume nor foreign exchange revenue has been affected by the reduced number of companies.

4. It makes enterprises more conscious about protecting the export management order.

After implementing the export quota bidding system, every winning enterprise wants to make up for the temporary increase in export cost as a result of the bidding fee it has to pay. But export price and management order directly affect enterprises' export profit. Therefore, the winning enterprises are anxious to maintain good export management order. They urge the chambers of commerce to coordinate export prices and urge everybody to unite against the outside world. In the past, the chambers had trouble coordinating prices, especially because everybody wanted to handle the most profitable commodities; enterprises drove down prices again and again, often reducing the industrywide price agreements, discussed and drawn up by the chambers of commerce, to a blank piece of paper. Today, enterprises are paid to use up the quota they won; the chambers of commerce's coordinated prices can play a truly constraining role to make sure that the actual transaction prices of many commodities not only do not fall below but are even higher than the coordinated prices. The phenomenon of price-cutting basically is no longer a problem, and export order has greatly improved.

PRC: Development Strategy For Auto Parts Industry

96CE0309A Beijing JINGJI CANKAO BAO in Chinese 3 May 96 p 2

[Article by Li Feng (2621 3536): "Official Outlines Development Objectives for Auto Parts Industry"]

[FBIS Translated Text] Faced with a relentless offensive from foreign auto industries, how does China propose to meet the challenge? According to Deputy Director Chen Yuhong [7115 6460 4767] of the planning office of the auto industry department in the Ministry of Machinery Industry, the "automobile industry policy" promulgated by the government clearly sets out a direction of development for the industry along with the procedures and objectives.

Chen Yuhong defined the overall development strategy of China's automobile industry as follows: Push ahead nationwide, strive for breakthroughs in key areas, develop at the same pace, and participate in international specialization. Its strategic focuses include the following: The backbone auto parts enterprises must achieve economies of scale without delay not only to meet the need for parts of the domestic industry, including its postsale services sector, but also to enter the international marketplace and participate in global competition. Raise the overall standard and develop at the same pace as the main engine industry, with the production of some of the more critical auto parts projected to surpass the automobile industry as a whole. Turn backbone enterprises into conglomerates. Concentrate on integrating them and producing complete series of auto parts.

The short-term objectives of Phase 1 are scheduled for realization by 1997. By then China will have a total automobile production capacity of between 1.6 an 1.7 million vehicles, all manufactured in accordance with economies-of-scale requirements, and the industry's fragmentation will come to an end. During this stage, the auto parts industry must accelerate its development by revolving itself closely around the key projects. Some enterprises will achieve economies of scale and complete their task of making parts for the whole car. Over 60 percent of the parts in a sedan should be made domestically; in the case of minivans, the proportion should be 80 percent.

Intermediate objectives are to be achieved in Phase 2. The automobile industry is projected to have an annual production capacity of between 2.8 and 3.0 million vehicles, including 1.3 to 1.5 million sedans. A host of auto parts enterprises will achieve economies of scale in production and we will see a nascent product development capability in the industry. Exports will rise markedly. The auto parts industry will develop at the same pace as the automobile industry as a whole, with some critical parts actually overtaking the latter.

The long-term objectives are to be achieved in Phase 3, which will take us all the way to the year 2010. By then the automobile industry will have matured into a pillar of the national economy, turning out 6 million vehicles a year, including 4 million sedans. At that time China will boast three to four automobile conglomerates that are internationally competitive and capable of producing

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1 million vehicles each annually. By then China should be producing a full complement of parts for a particular make of car. Auto parts enterprises should include both auto parts conglomerates that operate on a huge scale and offer a diversified range of products and highly specialized outfits. During Phase 3 the auto parts industry will have become a bona fide foundation for the automobile industry.

How to achieve these magnificent objectives? Chen Yuhong mentioned six specific measures.

—Plan comprehensively but provide guidance customized to suit individual circumstances. First of all, 60 key parts from three categories should be selected for incorporation into the official development plan. The first category consists of high-tech which China does not have at present. We should begin by going after the integration of electrical machinery. Support one industry first. In the second category are auto parts where China already has laid a foundation. For each auto part, we should select two to three backbone enterprises and proceed to transform and modernize them. In the third category are auto parts where China already has laid a solid foundation. For each auto part in this category we should select two to three backbone enterprises and develop a full range of parts for each of several leading car makes. Second, select 300 enterprises to receive preferential treatments. Third, clarify the guidance to be offered in the importation of technology and the establishment of joint ventures and cooperative ventures.

—Increase investment and provide assistance selectively. During the Ninth Five-Year Plan, the investment ratio between the sedan industry and auto parts industry should be readjusted to 1:1. Special-purpose loans and policy-based loans should be made available to the three categories of key auto parts mentioned above. Preferential policies should also be formulated to give them extra support.

—Achieve economies of scale to spur the development of a mass market. Economies of scale requirements for the first and second categories of key auto parts will be published in order in the future. Encourage the making of a series and systematic auto parts production. Encourage auto parts conglomerates that have just achieved economies of scale to tap the international market vigorously.

—Develop an auto parts industry that meets international standards. As far as projects involving joint ventures and cooperative ventures are concerned, their products must meet whole-car standards, particularly in such areas as safety, fuel economy, and environmental protection. Restrictions should be set on the import of obsolete technology and equipment. The import into the Chinese market of old cars and old auto parts in any form should be prohibited.

—Enhance self-development capability. Even as we import manufacturing technology, we should take pains to acquire product development technology. Backbone enterprises should set up their own research and development [R&D] centers and rely primarily on self-development to come up with a new generation of products. Increase the percentage of sales revenue set aside as technological development fees. Chinese enterprises must abide by the following principles as they look for a foreign partner: The partner must have accomplished a high degree of specialization. It must boast a full complement of products, a world-class R&D capability, international sales outlets, and a strong ability to raise short-term loans.

—Further the structural adjustment of the auto parts industry. Where the development of complete sets of key parts is concerned, we should gradually move the industry in the direction of specialization and systematization at all levels. That will facilitate product development for both the auto parts industry and the automobile industry as a whole and help an auto plant organize the production of a complete set of parts. Building on this basis, we should in time be able to put together a number of open and R&D-oriented auto parts conglomerates.

PRC: Auto Parts Industry To Pursue Economies of Scale

96CE0309B Beijing JINGJI CANKAO BAO in Chinese 3 May 96 p 2

[Article by Li Feng (2621 3536): "Bright Future for Auto Parts Industry"]

[FBIS Translated Text] The automobile seems to have been invested with a halo in recent years, making it extra eye-catching. It is also an ongoing hot conversation topic in economic and social life. The reason is that whether or not the automobile industry can become a pillar of the national economy symbolizes whether a nation has the enormous drive necessary for modernization.

However, even as we pay attention to the development of the automobile industry as a whole, we should be even more interested in that of the auto parts industry, which serves as a foundation for the former. The history of the automobile industry in the world demonstrates that not only is the auto parts industry an essential part of the automobile industry, but a strong auto parts industry is the indispensable basis on which a healthy automobile industry rests.

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How has China's auto parts industry been faring? According to information from the agencies concerned, after years of hard work, especially in the wake of developments in the last couple of years, China has put together a number of powerful auto parts enterprises operating on a fairly large scale, some of whose products have captured over 30 percent of the domestic market. Examples: the cross-pin-type point made by the Wanxiang Group of Companies in Hangzhou has 68 percent of the market, in addition to some being exported; the supercharger manufactured by Nanjing Electromagnetism Co., 44 percent; and the spark plug also made by Nanjing, 46 percent. It is precisely because the domestic auto parts industry is turning out a widening range of products of an constantly improving quality that the domestic contents of imported cars have increased sharply. In 1991, the domestic contents ratio of the Santana was only 70.37 percent; Audi, 21.19 percent; Xiali (TJ7100), 45.7 percent; Biaozhi, 29.8 percent; and Qienuoji, 44.75 percent. By 1994, the ratios had risen to 85.82 percent, 62.16 percent, 83.84 percent, 76 percent, and 80.44 percent, respectively. Specifically, the domestic contents ratios of some of these models rose 50 percent in just three years. According to industry statistics for 1994, there were altogether 1,638 auto parts enterprises in China that year (all meeting certain specified scale requirements) with 35.5 billion yuan in combined sales revenue. The industry increased output by 10.7 billion yuan, made a profit of 1.6 billion yuan, earned 250 million yuan in foreign exchange from exports, formed 23.1 billion yuan in the original cost of fixed assets, and provided jobs for 750,000 people.

On the whole, however, China's auto parts industry is not perfect. Among its major problems are the following: failing to keep pace with the main engine industry, serious underinvestment accompanied by extensive duplicate production, too many factories, excessive fragmentation, very limited specialization, small batch production, and a slim margin of profit.

According to industry sources, investment in the auto parts industry has been low relative to that in the entire automobile industry: 35.8 percent in 1981-85, 33 percent in 1986-90, and an even lower 29.04 percent in 1990-94. The experience of foreign countries suggests that only when there is parity between auto parts investment and main engine investment would the distribution ratio be considered proper. Meanwhile, the little investment in the auto parts industry, is scattered among almost 2,000 regular production enterprises. In fact, about 5,000 enterprises are in the business of making auto parts. Among the "regulars," auto parts account for at least 50 percent of their industrial output value in just 1,326 enterprises. A mere 126 enterprises, or 9.5 percent, report output value over 50 million; 89, or 6.71 percent, between 30 and 50 million; 283, or 21.34 percent, between 10 and 30 million yuan; and 206, or 15.54 percent, between 5 and 10 million yuan. The largest group, consisting of 622 enterprises, or 46.91 percent, have an output value under 5 million yuan apiece. In the case of some products such as mufflers, radiators, and steering gear, only 2 million units are produced annually by as many as 20 to 30 enterprises. How can one even begin to talk about economies of scale, let alone product development?

China's auto parts industry has reached a most critical juncture. If it puts off doing its best to catch up, it would be eliminated. The reason? China's auto parts market today is a thoroughly open market, a battleground that is about to witness the most ferocious competition among state and collective enterprises as well as joint ventures. They are all racking their brains to capture what is said to be the world's last huge market.

Indeed, this is a most appealing market. Just a few numbers can illustrate its bright prospects. It has been calculated that China's total auto output in 1995 was 1.2 million vehicles, including a little under 1 million sedans. However, the parts required for auto repair and maintenance alone were worth 40 billion yuan. By 2010, China's auto output is projected to reach 6 million vehicles, including 4 million sedans. Imagine the number of auto parts needed to repair and maintain this fleet. Currently China has 10 million vehicles, placing it third in the world after the Untied States (120 million) and Japan (80 million). By the year 2010, it is projected that there will be between 22 million and 27 million vehicles in China. An immense number!

Then there are the new trends in the global auto industry which will vastly invigorate China's market. For instance, the auto parts industry will become increasingly specialized and based on large-scale production, which will drive down auto costs, improve product quality, and make the market more competitive. Already leading auto-makers in the world not only purchase auto parts within their own companies but look outside their systems to select the best that the world has to offer. Known as "global procurement," this practice has strongly boosted the globalization and specialization of the entire auto industry. According to estimates by Japan's Ministry of International Trade and Industry, only 20 to 30 percent of the parts that go into the making of a vehicle in Japan are made by the company involved, while between 70 and 80 percent are made by other plants specializing in auto parts. Similarly, the "Big Three" in the United States, namely General Motors, Ford, and Chrysler, have seen the share of their auto parts manufactured in-house decline from about 70

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percent to 38-47 percent since 1990. Mercedes Benz, the German carmaker, has built auto parts production facilities in Indonesia, Brazil, and India because offshore production costs are 12 to 18 percent lower than their domestic counterparts.

At home, a rapidly expanding economy is spawning a robust demand for cars. Globally, China's relatively cheap labor costs and raw materials as well as a solid technological base have proved attractive to foreign companies looking to relocate production facilities in a big way. Both factors will greatly spur the development of China's auto parts industry as it strives to capture the domestic and international markets. No doubt the industry has a brilliant future. The world requires China to do its part—and do it well—at this point in time when one century gives way to the next.

*PRC: Investigative Report on Losses of State-Owned Enterprises

96CE0327A Beijing JINGJI GUANLI [ECONOMIC MANAGEMENT] in Chinese 5 Apr 96 No 4, pp 18-19

[Report by Wang Liqun (3769 4539 5028): "The Harsh Realities— A Findings Report on the 1995 Questionnaire by the ETO System of State Enterprise Losses"]

[FBIS Translated Text] In recent years, the problem of state enterprise losses has become the focus of attention by all parties. So the 1995 ETO (Enterprise Tracking and Observation) system questionnaire poll mainly focused on questions in areas such as the reasons for the losses, ways to turn losses around, and views on bankruptcy. The poll sent out 1,800 questionnaires, with 1,208 being returned, for a recovery rate of 67.11 percent. Of the returned questionnaires, 26 came from particularly large enterprises, with 519 from large enterprises, 477 from medium ones, and the rest from small ones; 879 were state enterprises, with 107 being collective, 85 joint stock, 33 foreign trade, and 16 being other kinds of enterprises. Of the over 1,200 enterprises that returned the questionnaires, 515, or 42.6 percent, were sustaining losses. That included 414 state enterprises, or 80.4 percent of the losing ones, with 407 facing bankruptcy, of which 310, or 76.2 percent, were state enterprises. And while 68 losing state enterprises, or roughly 13.2 percent of all losing enterprises, held that their enterprises were moving in a better direction, with their losses down from 1994, their share was certainly too low.

The following are the views on the losses expressed by enterprise leaders in the questionnaires.

I. A Management View of the Causes of State Enterprise Losses

While there are many reasons for enterprise losses, we listed seven options in the questionnaire, asking that one be selected. Finally, we ranked all causes in declining order of their frequency of selection as below:

Table 1

Options	Frequency of Selection	% of All Losing Enterprises	Including: State-Owned	% of All Losing State Enterprises
1. Excessive Historic Burdens	204	39.6	168	40.6
2. Policy Losses	83	16.1	75	18.1
3. Unmarketable Products	66	12.8	54	13.0
4. Other	63	12.2	45	10.9
5. Excessive Social Burdens	46	8.9	35	8.5
6. Management Chaos	26	5.1	20	4.8
7. Poor Product Quality	11	2.1	9	2.2
8. No Selection	16		8	

This focused distribution of the selection frequency shows that over 80 percent of enterprises selected the first four items, meaning that the enterprise managers held generally that their losses were due to 1) historic factors, 2) policy, and 3) enterprise factors per se. State enterprises selected these four items more than any others.

To more clearly see the causes of state enterprise losses, we have taken the selection frequency of the items selected by all industries, minus the individual figures for all industries of state-owned losing enterprises, to derive the selection rates of all causes for all industries. These selection rates show the impact by industry of the various causes for losses.

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1. The Impact by Industry of Excessive Historic Burdens

Table 2.

The Industries with Selection Rates Over 50% Are:	
Industries	Selection Rates %
Timber and Bamboo Products	50.0
Textiles	59.4
Leather, Fur, Feather Down, and Their Products	50.
Paper Making and Paper Products	100.0
Pharmaceuticals	66.7
Rubber Goods	60.0
Nonferrous Metal Smelting and Calendering [Mangling]	85.7
Power Machinery and Equipment Manufacturing	69.2
Instruments and Meters, Cultural and Office Machinery Manufacturing	60.0
Other Manufacturing	50.0
Coal Gas Production and Supply	50.0

This industrial distribution shows that the impact was essentially on industries with direct state construction investment in their initial industrialization. But as the large and medium state enterprises in these industries once had a glorious age in our national construction process, supporting the development of the Chinese economy from its earliest poverty and blankness to its current industrialized large-scale production, just why is it that their debts have built up to the point of being so unbearable? Tracing this to its roots, we find four reasons:

A. Employee social security for which the state should have paid. Due to historic reasons, the state was unable to handle this burden, leaving enterprises to shoulder it, which turned into a long- standing fiscal burden;

B. Since the "change from appropriations to loans" in the 1980's, the state has invested little or essentially no capital in enterprises, with the ultimate result of enterprise debt operations plus lack of capitalization being an ever-growing debt to the point of more debt than equity;

C. The irrational industrial distribution of state enterprises has left state enterprises with relatively declining overall economic might;

D. The incentive forces of state enterprises do not contribute to state enterprise competitiveness.

2. The Impact by Industry of "Policy Losses"

Table 3

Industries	Selection Rates %
Coal Mining	87.5
Food Processing	41.2
Arms and Ammunition Manufacturing	80.0
Power, Steam, and Hot Water Production and Supply	75.0
Coal Gas Production and Supply	50.0
Tap Water Production and Supply	100.0

It can be seen that these industries (except for food processing) have all essentially been under direct state regulation and control all along, being basically all state-owned, with varying degrees of state jurisdiction over their investment, production, sales, and prices. As our commodity economy developed, which raised prices such as labor, power, raw materials, and land while product prices increased little, such supported sales exceeded the decline in per unit finished product cost due to higher labor productivity, exacerbating losses. And the food processing industry was subject to another factor on top of that. More enterprises entered the industry, with the resulting competition lowering finished product prices, to cause a relative growth of finished product costs. In addition, as the state enterprises in this industry were unable to replace their equipment, upgrade their technology, or cultivate better personnel skills, the state enterprises in the food industry are in even worse shape.

***PRC: Survey of Per-Capita Savings in First Quarter**

96CE0275A Beijing JINGJI RIBAO in Chinese 8 Apr 96 p 2

[Report by Zhou Yunbi (0719 0061 3880) and Liu Wenzhong (0491 2429 1813): "The Savings Survey of the People's Bank of China in the First Quarter of the Year Shows Stable Trend of Urban and Rural Residents'

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Income But Remarkable Gap Between Different Income Brackets"]

[FBIS Translated Text] The findings of a survey on residents' savings conducted by the People's Bank of China in the first quarter this year and which was based on 20,000 questionnaires distributed in 34 large, medium, and small cities across the country, show the following main characteristics of the savings trend, while revealing a common expectation of stable inflation and a normal savings mentality among the public.

At Present, the Actual Income of Urban and Rural Residents Remains Basically Stable, Income Expectation Is on Low Side, Population in High Income Bracket Has Increased

This survey has it that 35.2 percent of the depositors think their income has increased, 48.6 percent believe their income has remained basically the same, while 16.1 percent say their income has decreased. This finding basically consists with the finding of the last survey. However, the proportion of depositors who see an increase in their income has been decreasing, while the number of those who believe their income remains the same has been increasing. This indicates that the trend of residents' income has tended to be stable and the growth in income has been slowing down, in the wake of the slowdown of economic growth in recent years (see the table below).

Date of Survey	Jun 93	Nov 93	May 94	Nov 94	Feb 95	Aug 95	Feb 96
Those who see an increase in income (%)	49.5	44.4	46.0	44.7	43.3	35.9	35.2
Those who see basically no change in income (%)	34.5	41.4	38.3	37.8	40.0	47.2	48.6
Those who see a decrease in income (%)	16.1	14.2	15.6	17.5	16.7	16.9	16.1

In terms of income growth, there is a pretty wide gap between groups of depositors of different occupations. The two groups which have the highest proportion of population seeing an increase in their income are individual households (47.1 percent) and business companies (42.5 percent), both of which are higher than the nationwide average level of 35.2 percent. This survey also reveals that 38.6 percent of state organization depositors believe their income has been increasing. This proportion is also above average.

In terms of the absolute value of the monthly income, those depositors with a monthly income between 300 to 800 yuan account for 52 percent of all the depositors; those low-income depositors with a monthly income less than 300 yuan account for 23.4 percent. These two groups representing the medium- to low-income bracket, that is, with a monthly income less than 800 yuan, add up to 75.4 percent, 2.4 percentage points lower than the figure shown in the last survey. Depositors with a monthly income between 800 and 1,500 yuan account for 18.8 [as published] percent, while those with a monthly income of over 1,500 yuan account for 6.4 [as published] percent. Both groups, representing the high income bracket with a monthly income of over 800 yuan, add up to 25.2 [as published] percent, an increase of 3 percentage points over the last survey.

General peasant households and retirees have the lowest income—46.4 percent of peasant households and 39.5 percent of retirees have a monthly income less than 300 yuan, both percentages are obviously higher than those measured from among other occupational groups of the population. The group of depositors with a high monthly income of more than 1,500 yuan consists mainly of individual households in the industrial, commercial, and transport sectors (21.2 percent of whom earn a high monthly income of over 1,500 yuan), and business companies (13 percent of whom earn that income).

As far as the expectation of future income is concerned, 37.8 percent of the depositors look forward to an increase in their income, 50.1 percent believe their income will remain basically the same, while 12.1 percent foresee a decrease in income. The proportion of those looking forward to an increase in income is 2.1 percentage points lower than the figure recorded in the corresponding period last year, while the proportion of those foreseeing a decrease in income has increased by 1.6 percentage points. Retirees are the least optimistic about their future income, with only 19.6 percent of them expecting an increase in income.

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Gaps in Income Remain Remarkably Wide Between People in Different Localities, Different Occupations

The current survey shows that the national average for a deposit per capita is 4,021 yuan. For urban areas, the deposit is 4,138 yuan; for rural areas, it is 3,664 yuan. The two categories of depositors with the highest amounts are individual households in the industrial, commercial, and transport sectors (11,039 yuan), and business companies (7,089 yuan). Those with smaller deposits are general peasant households (1,608 yuan), schools (2,219 yuan), financial institutions (2,397 yuan), and retirees (2,431 yuan). These findings indicate a remarkably wide gap in income between groups of people of different occupations.

The data collected in the current survey about the gap between different localities in the amounts of deposit per capita basically is consistent with what was found in the previous surveys. They point to a diminishing trend in the southeastern coastal areas and large cities on one end to the hinterland and small cities on the other, with the exception of a few localities. The current survey shows that Wenzhou has the highest deposit per capita of 18,293 yuan; Quanzhou ranks second at 10,959 yuan; and Luohe of Henan province ranks third at 10,881 yuan. Localities with lower deposits are mostly located in the northwest, the northeast, and rural areas; for instance, Lanzhou has deposits of 1,215 yuan; Qiqihar, 1,324 yuan; and Tonghua, 1,390 yuan. The highest deposit is more than 15 times as much as the lowest, the widest gap ever found in all the surveys. This indicates that the gap between different localities in the amount of deposits is gradually widening. (see the table below)

Statistics of Deposits Per Capita by City as Revealed by the Nationwide Savings Survey

City	Deposits Per Capita	City	Deposits Per Capita	City	Deposits Per Capita
Wenzhou	18,293 yuan	Quanzhou	10,959 yuan	Luohe	10,881 yuan
Changde	9,178 yuan	Guangzhou	7,940 yuan	Nanchang	6,167 yuan
Mudanjiang	5,116 yuan	Shanghai	4,441 yuan	Chongqing	4,232 yuan
Beijing	3,960 yuan	Nanjing	3,706 yuan	Wuhan	3,533 yuan
Kunming	3,352 yuan	Beihai	3,338 yuan	Zhengzhou	3,301 yuan
Huhhot	3,011 yuan	Handan	2,697 yuan	Taiyuan	2,625 yuan
Tianjin	2,549 yuan	Changchun	2,490 yuan	Liuzhou	2,339 yuan
Puqi	2,204 yuan	Anqing	2,088 yuan	Ziyang	2,073 yuan
Xinhui	1,976 yuan	Hangzhou	1,956 yuan	Guiyang	1,948 yuan
Qihe	1,863 yuan	Xian	1,809 yuan	Xining	1,497 yuan
Tonghua	1,390 yuan	Qiqihar	1,324 yuan	Lanzhou	1,215 yuan

Finance & Banking

•Shipbuilding Industry Develops Rapidly

96CE0201B Beijing ZHONGGUO JIDIAN BAO in Chinese 1 Mar 96 p 2

[Article by Ma Zhang (7456 4545): "China's Shipbuilding Industry on the Path of Rapid Development"]

[FBIS Translated Text] China's shipbuilding industry scored noteworthy successes in 1995, adding a brilliant chapter to the history of the industry which is now set on course toward rapid development.

In 1955, the China Shipbuilding Industrial Corporation [CSIC] completed 1.75 million tons of new ship construction, up 6.2 percent from 1994, and realized an industrial output value totalling 1.5 billion yuan, 13 percent more than the year before. Of this tonnage, ships built for export totalled 710,000 tons, with 31 ships in the 10,000 or more tons class. Furthermore, with the recovery of the international market for new ships and the continued strengthening of China's shipbuilding capacity, CSIC received a substantial number of new ship contracts; in 1995 alone, these contracts for a total of 2.48 million tons were worth more than 23 billion yuan; of that tonnage, 2.438 million tons were for export.

China now ranks among the world's major shipbuilders. First, China's shipbuilding capacity already amounts to six percent of the world's capacity, and the total tonnage of new ships built puts China among the major shipbuilders, ranking third just behind Japan and Korea. Second, the technological standard of China's shipbuilding has risen rapidly and is basically up

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to the standard of developed nations today. This is seen in the fact that China's shipbuilding industry is already taking orders for new ships built to any technological standard required; for examples, in recent years, the CSIC has successively built a fleet of high-tech LNG [Liquidfied Natural Gas] ships, VLCC [Very Large Cargo Carrier] super oil tankers, roll-on roll-off freighters for automobiles and container ships of various capacities. Third, as the economic strength in China's shipbuilding industry increases, the overall level of the technological standard in shipbuilding continues to be raised. According to reports, in 1990-1995, the CSIC has undertaken 120 technological reform projects, made up to 5.5 billion yuan in capital investment which increased its shipbuilding capacity by 480,000 tons and its diesel engine manufacturing capacity by 37,000 kilowatts. As a result of major capital investment and introduction of advanced technological facilities, the shipbuilding cycle was shortened which thereby increased the economic benefits of the industry by a big margin. According to CSIC's estimates, every one yuan of capital investment in technological reform generates three yuan in sales.

In 1996, the prospects of China shipbuilding industry appear to be booming.

—A substantial number and variety of new ships being built for export. The CSIC's production plan shows that building ships for export is the major focus. In 1996, the CSIC expects to begin building 2 million tons and complete 1.8 million tons of new ship construction; of this tonnage, 1.56 million tons are for export, equalling some 87 percent of the completed construction. Among the ships built for export, the majority are for such nations as Norway and Germany, and the types include container ships, freighters and large oil tankers. In addition, due to economic recovery of the ship transport market, many ship owners are requesting early delivery; in 1996, the CSIC therefore has completed 300,000 tons which were contracted for delivery in 1997; while this has added pressure on the production system, it also raises the berth utilization rate.

—New shipbuilding orders expected to surge. It is reported that even though the CSIC's 1996 new ship orders exceeded its 1995 projection by close to 1 million tons, company officials remain optimistic over the prospect of continuing to receive a large number of new orders. First, the global economy is recovering, ship transportation is continuing to expand and the shipbuilding industry is entering a new era of high demand. Furthermore, ships built in the 1970's begin to require replacement and, compared to previous years, ship owners' enthusiasm for ordering new ships remains unabated in 1996. Second, various Japanese and Korean major shipbuilders at present have their hands full with new orders. According to reports, Korea took in orders for 149 new ships in 1995 totalling close to 6 million tons. Such shipbuilders therefore are not rushing to take in new orders with their construction berths fully booked until 1998. This is the external factor which helps China's shipbuilders obtain new ship orders. Third, analysis by ship transport experts suggests that worldwide demand for new ships in 1996 remains strong; it is estimated that the worldwide demand will reach 24 million tons, of which 10.1 million tons are for oil tankers, 5.5 million tons for freighters, and 4.8 million tons for container ships.

—Investment in China shipbuilding will be further increased, and its capacity strengthened. Sources revealed that in 1996, the government has set up an investment scope of 1.4 billion yuan for the CSIC, and up to 700 million yuan for direct investment in remodelling shipways and improving shipbuilding facilities in order to enlarge the scope and tonnage of ships built at the key shipyards of Jiangnan, Dalian and Guangzhou Shipbuilding Companies. It is estimated that when these technological reform projects are completed, the CSIC shipbuilding capacity will be increased by 400,000 tons. In addition, based on the CSIC "Ninth Five-Year Plan" projection, the Corporation in the next five years will not only complete technological remodelling and improvement in equipment and facilities at the shipyards currently in use, but build a major modern shipbuilding and repair base at Waigaoqiao in the Shanghai-Pudong area. These will greatly raise the technological standard and production capacity of China's shipbuilding industry. It is said that by the end of this century, China's shipbuilding capacity will increase to 4.5 million tons from the current 2.5 million tons.

*Commentator Defends Utilization Of Bank Funds

96CE0224A Beijing JINRONG SHIBAO in Chinese 22 Mar 96 p 1

[Article by Zheng Ping (6774 1627): "Bank Funds Being Put To Full and Proper Use"]

[FBIS Translated Text] In 1994 financial institutions took in more new deposits than what they lent in new loans, the difference being 405.2 billion yuan. In 1995, which just ended, financial institutions received 1.2957 trillion yuan in new deposits and made new loans totaling 934 billion yuan. Once again, deposits exceeded loans, this time to the tune of 361.7 billion yuan. For two years in a row now, Chinese banks had a big deposits surplus even in these times of high inflation, to the bewilderment of many people in society. At a time when many enterprises are short on funds, the fact that financial institutions manage to chalk up

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a big deposits surplus, that is, they have been taking in deposits faster than they lend money, suggests that banks are not fully utilizing their funds effectively. In other words, banks are seen as failing to make loans at a rate commensurate with their flow of deposits, thus worsening the enterprises' cash crunch. Hence the endless demands you hear in some enterprises and party and government agencies that banks go easy on credit.

Are bank funds really not being put to full use? Does full utilization mean that banks should lend out all the deposits they have received, down to the last penny? The fact of the matter is that there is a misunderstanding here.

In a modern banking system, it is impossible for a bank's loans to exactly equal its deposits. The reason is that it must first take care of the necessary deductions. For starters, after accepting a deposit, a bank is required to make a payment, currently at the rate of 13 percent, to the deposit reserve fund established by law at the People's Bank. Second, in addition to paying the deposit reserve, a bank must keep sufficient money in its provision fund to meet routine circulating needs. Right now the provision fund rate for Chinese banks is 5-7 percent. Thus a bank's real deposits are its deposits minus payments to the statutory reserve fund and provision fund.

Take the 1995 data for instance. Financial institutions had deposits of all types totaling 5.033 trillion yuan before deducting payments to the reserve fund and provision fund. At year end they had made loans of all types amounting to 4.9729 trillion yuan, equivalent to 98.8 percent of their deposits. Specifically by the year's end state enterprises had 3.5253 trillion yuan in deposits and 3.8578 trillion yuan in loans, the ratio between loans and deposits being 109.4 percent. After taking care of the reserve and provision funds, the banks' year-end deposits stood at 4.0767 trillion yuan while their loans remained unchanged at 4.9729 trillion yuan, yielding a loans to deposits ratio of 122 percent. In the case of state banks, their year-end deposits totaled only 2.8555 trillion yuan, lifting their loans to deposits ratio even higher to 135.1 percent. This shows that their lending actually exceeded their deposits. The reality is that the loans to deposits ratio of the financial institutions in many places already topped 100 percent even before payments were made to the statutory funds. In some localities, the post-deductions loans to deposits ratio of the financial institutions is approaching or has surpassed 200 percent. It is therefore clear that financial institutions are putting to full use their deposit funds.

In point of fact, in determining whether bank funds are fully utilized, we should examine the overall structure of and changes in a bank's statement of assets and liabilities instead of simplistically pointing to the difference between deposits and loans and concluding that banks let their funds sit idle. If we look at the development of the international banking industry, as the market economy develops, particularly in the wake of the maturation of the financial market, the trend towards assets diversification among financial institutions quickens its pace by the day, as indicated by the steady expansion of the banks' nonloan assets (primarily securities and investments) and their rising value both in absolute terms and as a percentage of their total funds. What this means is that there are now more demands on a bank's disposable funds (deposits minus payments to reserve and provision funds): to pay for securities and other nonloan assets as well as to make the necessary loans to finance normal production development. In 1995 China's financial institutions invested 429.124 billion yuan, or 67 percent of all the funds they utilized, in securities, including treasury bonds and government debentures. These investments, which are a major source of national construction funds, also make bank assets more secure, liquid, and valuable. Whether one's perspective is national economic development or the bank's own development, the increase in nonloan assets is sound and legitimate.

Perhaps some people may query why the more-deposits-than-loans phenomenon occurred only after 1994. A crucial explanation here is foreign exchange reform. Seven major pieces of reform affecting the economic system were introduced in 1994. As far as financial reform is concerned, some of the boldest moves were made in foreign exchange reform, which successfully brought an end to the dual exchange rate system. That very year foreign exchange constituted a sharply increased portion of funds. Government foreign exchange reserves take up central bank funds. Foreign trade enterprises which earn foreign exchange directly deposit their funds denominated in renminbi in commercial banks. After a complicated distribution and redistribution process, these funds are converted into household savings deposits in commercial banks. The result is that commercial banks have gained a new extra source of funds. This is a major reason why new deposits in commercial banks have surpassed new loans during the past two years.

We can also see from the above analysis that deposits in financial institutions are not inherently related to the enterprises' fund shortages. Moreover, the financial institutions have been lending more money, not less, in the last few years. In 1995, for example, they lent 212.32 billion yuan more than in 1994. Financial institutions, it should be said, have been deploying their credit funds in a proper manner, in the process ensuring that the funding needs of every quarter in society are met. As for

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the enterprises' fund shortages, basically it is the consequence of the failure to effect fundamental changes in the enterprises' market orientation, or lack of it, and to transform their internal operating mechanism. Throughout society, funds are not yet circulating positively, so it would be unrealistic to expect the government to be able to end fund shortages simply by easing credit.

The financial institutions' deposits surplus is a reflection of the profound changes in China's economic and financial systems in the past decade since China embarked on reform and introduced the open policy. While a normal phenomenon, its emergence does present the central bank with a new task as regulator and controller of the macroeconomy: hold the line on the overall level of social credit as well as check the scale of lending by state banks if the money supply is to be curbed effectively. To do that, the central bank must limit lending by all financial institutions by controlling the basic currency. Furthermore, when government foreign exchange reserves rise sharply or when government spending exceeds revenue (including securities revenue), causing the basic currency and money supply to expand, it is imperative that the central bank examine renminbi loans and foreign exchange loans comprehensively and reduce the financial institutions' ability to make more loans in order to strictly rein in the money supply, which, in turn, will keep the currency stable and help ensure that development objectives are achieved.

When we have a proper understanding of the current transformation of the financial institutions' "loans surplus" into a "deposits surplus," we will be in a better position to allocate and utilize bank funds effectively, to deepen financial reform, and to develop the financial industry soundly.

*Impact of New Tax System on State Enterprises

96CE0224B Beijing JINGJI CANKAO BAO in Chinese 19 Mar 96 p 4

[Article by Xu Liwen (1776 7787 7186): "New Tax System Lightens Tax Burden for Some Enterprises, Increases it for Others"

[FBIS Translated Text] Large and mid-sized state enterprises are a key pillar of the national economy and a major source of government revenue. It is absolutely critical that we make them a success. And an essential ingredient of success is a sensible tax structure. As a principal external precondition for enterprise development, such a tax system plays a role that cannot be overlooked.

New System Helps Sort Out Distribution Relations

Tax reform cut the number of industrial and commercial taxes from 32 to 18, which can be divided into five broad categories depending on their nature and function: circulation, resource, income, special-purpose, and property and behavioral taxes. The implementation of the new tax system has consolidated the income taxes payable by domestically funded enterprises and lowered state enterprise tax rates from 55 to 33 percent. The state enterprise adjustment tax was abolished, as were the national energy and transportation key construction fund and national budget adjustment fund (known as the "two funds" for short). A standardized value added tax (VAT) was introduced across the board throughout the circulation arena and made applicable to all commodities in an effort to regulate certain consumer goods through a consumption tax. The new tax system combines and simplifies the original tax system, lowers the rates at which state enterprises pay income taxes, thus easing their tax burden, and further straightens out the distribution relations between the state and the enterprise.

Impact of New Tax System on Large, Mid-Sized State Enterprises

The latest round of full-fledged tax reform involves circulation, enterprise income, and a majority of local taxes (such as resource tax and land VAT). Of all the taxes making up an enterprise's tax burden, the most important are the VAT, consumption tax, and enterprise income tax. By redefining the scope of applicability of the VAT and imposing a consumption tax, the government has changed the tax burden on enterprises at different levels and in different industries. By consolidating the rates at which enterprises pay income taxes, the latest round of tax reform also has changed the tax burden on enterprises depending on their ownership system. As for the abolition of pretax loan repayment, that too has a disparate effect on enterprises. The shifts in the enterprises' tax burden are highly complicated.

The new tax system operates in complicated ways. Not only have tax rates been changed, but the types of tax, taxable items, and a number of tax-related policies have also changed. Both factors that boost the tax burden and those that have the opposite effect are at work, so it is difficult to say categorically whether the new tax system increases or decreases the tax burden on large and mid-sized state enterprises. We must make a detailed analysis industry by industry.

1. State enterprises may see their tax burden go up or down depending on their industry.

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After the introduction of the new tax system, tax burden on state industrial enterprises went down 1.01 percentage points overall. Specifically, the tax burden on metallurgical and mechanical enterprises decreased 0.75 percentage points, but it was the building materials and textile enterprises which experienced the steepest drop in the tax burden, down 8.5 percentage points on the average. The tax burden on circulation and goods and materials enterprises went up 1.01 and 1.2 percentage points, respectively. Also heavier now is the tax burden on commercial enterprises, up 1.4 percentage points; chemical enterprises, up 0.85 percentage points; and electronic enterprises, up 1.62 percentage points. Enterprises in the power industry had a bigger increase, 2.07 percentage points, but the tax burden on coal enterprises increased the most, by 7.47 percentage points.

Much of the change in the tax burden on enterprises in different industries was the result of the new tax system itself, whose centerpiece is circulation taxes. In fact, the characteristic of the new tax system is extra-price taxation. The taxpayer is now separated spatially and temporally from the individual who has to bear the tax burden. Instead, an enterprise's effective tax burden is directly linked to taxes deducted at the preceding stage in the production process. In the case of resource-intensive enterprises in "upstream" industries, such as coal, power, and mining enterprises, outside goods (equipment) account for a relatively small share of the value of their output, that is, the amount of taxes deducted is quite insignificant while the value added at their own level is fairly substantial, which translates into a higher VAT burden. And VAT accounts for an absolute majority of taxes in the new tax system. Moreover, the prices of resource-based products are distorted to begin with. And then there is the newly introduced resource tax. Because of all these factors, the tax burden on this type of state enterprises has become much heavier. By the same token, some enterprises have seen their tax burden decrease, again thanks to the dominance of circulation taxes in the new tax system. Take enterprises in multiple processing, for instance. Since outside goods (or equipment) account for a large share of the value of their output, the tax burden of these enterprises has risen only marginally or even gone down after the new tax system came into effect.

2. Overall tax burden on state enterprises has gone down after the introduction of the new tax system.

The tax burden on state enterprises has decreased following the implementation of the new tax system. Under the old system, state and collective enterprises were governed by separate income tax systems, complete with different tax rates, different tax breaks, and different expenses deductions. As far as nominal income tax rates are concerned, collective enterprises were taxed based on a progressive eight-level system that ranged from 1 to 15 percent. Collective enterprises also were the recipients of preferential treatments, including contracting with profit concessions and tax exemptions and tax cuts. In contrast, the nominal income tax rates applicable to large and mid-sized state enterprises could be as high as 70 percent (55 percent income tax plus 15 adjustment tax). In practice, moreover, the actual tax burden might be different from the nominal tax bracket. According to a review by the State Administration of Taxation of the 1992 data of 37,300 enterprises as well as analyses of the exchange and payment data nationwide for that same year, the real tax burden was 29.01 percent for state enterprises and 21.20 percent for collective enterprises. Following the latest round of enterprise income tax reform, all enterprises, whatever their category, pay income tax at the flat rate of 33 percent. However, two special tax brackets—27 percent and 18 percent—were created for low-profit enterprises. It has been calculated that the real tax burden is now 28.72 percent for state enterprises and 23.64 percent for collective enterprises. Thus the tax burden on state enterprises went down 0.74 percentage points. The nominal tax burden on collective enterprises has dropped by an even wider margin but their real tax burden has gone up 2.44 percentage points. The reason is that these enterprises used to enjoy an excess of income tax cuts and exemptions from the local governments which have now been abolished.

3. Why tax burden has gone up for some enterprises

1) No deductions were taken for raw materials in stock before tax reform took effect. Under the new tax rules, no deductions could be taken for the time being for raw materials already in stock before tax reform to offset the VAT. 2) Following the introduction of the new tax system, state enterprises have had trouble securing VAT receipts for the procurement of some raw materials. Small-scale taxpayers are not eligible to obtain special VAT receipts. However, as the socialist market economy takes shape, there are more and more occasions on which state industrial enterprises have to do business with small-scale taxpayers. In the course of procuring raw materials, a state enterprise sometimes encounters a supplier who requests that no VAT receipt be issued or, if one is issued, that the enterprise pays 10 percent more for the raw materials in question. 3) Transportation expenses are not tax-deductible. Some enterprises have to ship most of their raw materials and fuels from other parts of the nation. These enterprises have high transportation and miscellaneous expenses, which, however, are not deductible. 4) The creation of more taxes in the consumption category has resulted in

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a heavy burden on cigarette, liquor, cosmetics, and car makers.

Seize Opportunity to Further Development

1. At a time when the economy has hit some rough spots, the government still saw fit to cut income taxes payable by large and mid-sized state enterprises. No doubt this will create a favorable external environment for them. But what is external must eventually be internalized to be operational. Large and mid-sized state enterprises must seize this opportunity to transform their operating mechanism and create a modern enterprise system in order to further their own development.

2. Learn the new tax law, master the new tax system, and use it to straighten out the distribution relations between the state and the enterprise and within the enterprise itself.

Foreign Trade & Investment

*1996 Forecast of Foreign Trade Trends, Policies

96CE0267A Beijing GUOJI MAOYI WENTI [INTERNATIONAL TRADE JOURNAL] in Chinese 6 Apr 96 No 4, pp 21-25, 32

[Article by Wang Yaping (3769 0068 1627), institute for economic research, State Planning Commission: "Projections of Foreign Trade Trends"]

[FBIS Translated Text] Important changes will occur in China's foreign trade in 1996. Both factors which promote foreign trade and factors which impede it are at work in the macroeconomy, offering us an opportunity for readjustment but, even more important, presenting us with a grim challenge. Regarding exports, in particular, there is no room for optimism. We should have a sober understanding of the situation and take proper and effective countermeasures.

I. Analysis of Foreign Trade Trends

Based on a comprehensive assessment of the domestic and foreign economic environments and an analysis of all relevant factors, we project the following trends in foreign trade in 1996. In terms of overall size, the total volume of imports and exports will grow moderately to reach $320 billion, up 14 percent from 1995, the slowest annual increase in the 1990's. As for the structure of the increase in foreign trade, exports growth will ease significantly while imports will rise by a wide margin, in sharp contrast to the last two years when exports climbed rapidly and imports trailed behind. Imports and exports are projected to increase 20 percent and 10 percent, respectively, compared with 1995. China's foreign trade surplus will shrink markedly from that in 1995, which is expected to hit $20 billion. As for the forms of trade, because of rising export and foreign-exchange-earning costs and the downward adjustment of the import duty refund rate, conventional trade exports will slacken off, possibly remaining unchanged from 1995. Processing trade, on the other hand, will maintain its strong growth momentum and its share of total trade will continue to increase.

A. About Exports

Exports will continue to grow at a reasonable pace in 1996 to a projected $160 billion, up 10 percent or so, which is notably smaller than the increases in the past two years. These are the main reasons.

First, the international economic environment. According to IMF forecasts, the global economy is currently in the upward curve of a new economic cycle and will grow 4.1 percent in 1996 (compared with 3.6 and 3.7 percent in 1994 and 1995, respectively), the highest in eight years. Global merchandise and service trade will increase 7 percent, slightly lower than the 8 percent projected for 1995 but still higher than the average 5 percent or so recorded in the 1990's. The continuing recovery of the world economy and the expansion of world trade provide China's export drive with a set of favorable market conditions. However, the size of China's share of the increase in world trade will be determined primarily by China's standing in the global economy and its competitiveness as an exporter. Given the current international economic and trade relations, China has decreasing maneuvering room:

1. The trend toward liberalization in world trade has intensified after the Uruguay Round Agreements under GATT formally took effect and the World Trade Organization [WTO] was born. Meanwhile, however, rising economic regionalism and the formation of economic blocs have also reinforced trade protectionism to some extent. To this date China is still not yet a WTO member and cannot take full advantage of the multilateral trading system to promote its exports or to protect itself from the damage of trade protectionism. For instance, it is not in a position to counter unilateral trade sanctions with the rules of multilateral trade. Furthermore, there is no regional trade organization to back it up. Regional economic and trade organizations follow a trade policy that discriminates against nations outside the organization, which will have a substantial impact on China's export drive.

2. China's exports are dominated by labor-intensive products, which have been the targets of endless antidumping charges and quota restrictions. So far over 200 commodities have been named in antidumping complaints and indications are that more charges will be

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made by even more nations. Since China's export composition with its heavy reliance on labor-intensive products is not likely to change in the near future, its export drive will run into some resistance.

3. Developing nations pushing their own exports will put a squeeze on China's market share. Countries in Southeast Asia, in particular, are aggressively pushing their labor-intensive exports. Both in cost and quality they enjoy a certain edge. Forecasters expect the Southeast Asian economy to grow a robust 8 percent in 1996, bettering the average 6.3 percent projected for all developing nations. Economic development in Southeast Asia is primarily export-driven, yet the demand for labor-intensive products in the world commodity market is largely stable with little room for growth. What this means is that competition on the labor-intensive market in the global marketplace is bound to sharpen.

Second, the domestic economic environment. These are the major factors likely to foster export growth.

1. The appropriately austere monetary policy will remain in effect through 1996 accompanied by balanced domestic economic growth. The trend in recent years indicates that balanced domestic economic growth often goes hand in hand with rising exports. We expect to see the economic cycle bottom out and rebound steadily in 1996, but the growth rate will not be spectacular. By reining in aggregate domestic demand correctly, we ensure a relaxed supply-demand relationship and the availability of goods for export. A modest demand on the domestic market also compels enterprises to take greater initiative to search for opportunities on the world market, achieving a "push" effect.

2. Processing trade, dominated by foreign-funded enterprises, will continue to develop rapidly. Processing trade accounts for a rising share of China's total exports and is now on a par with conventional trade. Processing trade, where the foreign businessman provides raw materials and equipment, is immune from the effects of the rising costs of earning foreign exchange. Its export competitiveness will be given a boost by the tariff cuts of 1996. Although a deposit supervision and control system was introduced in 1996 for the materials imported for processing trade, it is mainly designed to prohibit foreign-funded enterprises from "importing more than they actually use" and will not require too much funds. For all these reasons, processing trade will continue to grow briskly to become the lead locomotive of China's export drive.

Even more powerful, however, are factors, particularly policy-related factors, that may constrain export growth.

1. Reductions in the export duty refund rates. On 1 July 1995 export duty refund rates were cut 3.7 percentage points on the average. Then on 1 January 1996 they were again rolled back 4.6 percentage points on average. It has been calculated that for each 1 percentage point drop in the export duty refund rate, enterprises have to shell out an additional 7.5 fen to earn $1 in foreign exchange. From January through September 1995, the cost of exporting and earning foreign exchange averaged 8.39 yuan nationwide, already higher than the exchange rate. Many foreign trade enterprises rely on export duty refunds to stay in business. The second round of cuts in export duty refund rates is expected to push up the cost of earning foreign exchange by 0.35 yuan or so for foreign trade companies and production enterprises engaged in conventional trade, making it harder for them to operate. Right now China's export commodities fall into three broad groups: one-third consists of profitable commodities, most of them regulated by quotas; another one-third comprises marginally profitable commodities, mainly electrical machinery and light industrial products; and one-third consists of highly unprofitable commodities, primarily grain, cooking oils, food, and livestock products. Without a corresponding increase in export commodity prices, cuts in export duty refund rates will turn some barely profitable foreign trade enterprises into money-losers, further squeezing the profits of foreign trade. While the renminbi's exchange rate will stay largely stable in 1996, the costs of earning foreign exchange is likely to go up due to rising commodity prices. Between them, lower export duty refunds and a stable exchange rate will make it that much harder to boost exports from the conventional trade sector.

2. Payment of export duty refunds in arrears. Under the plan, 55 billion yuan were allocated as export duty refunds for all 1995. By November that year, the entire appropriation had been exhausted but they were still making refunds due in February. In other words, export duty refund payments were nine months behind schedule. Based on the average refund rate in effect on 1 July, which was 1.1 yuan for every $1 worth of merchandise exported, and on the size of conventional trade exports, the government owed almost 60 billion yuan in export duty refund payments. The more a company exports, the larger the sum it is owed by the government in export duty refunds. Most hard hit are foreign trade specialized companies in conventional trade which are fairly large exporters. The failure to pay export duty refunds on time has directly worsened foreign trade enterprises' fund shortage. Meanwhile, the preferential interest rate for export credits that banks used to offer was abolished. Now the rate is 12 percent, up from 10.98 percent. Furthermore, banks nowadays calculate interest on overdue unpaid loans on

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a daily basis. A majority of foreign trade enterprises are short on funds and saddled with debts, which severely hampers the expansion of exports.

3. Export growth in 1996 starts from a high base. Exports shot up 31.9 percent in 1994. Reacting to reports in early 1995 of cuts in export duty refund rates, enterprises rushed to export on the assumption that "the sooner and the more one exports, the sooner and the more tax refunds one will get." As a result, exports soared 44.2 percent in the first half of 1995. Just as the upward trend was moderating in August, there were fresh reports of another round of export duty refund reductions in the coming year, which once again sent enterprises scrambling to ship their merchandise overseas in order to take advantage of a relatively high export duty refund rate. On the one hand, these events gave 1995 a high base number in exports. Starting from this high plane, we would have difficulty climbing any higher in 1996. In fact, conventional trade exports have been slipping since October 1995, making a decline in exports in the first half of 1996 a foregone conclusion. On the other hand, the inventories of foreign trade enterprises have fallen markedly. Prices on new stock must be set based on the new export duty refund rate, yet the operating procedures for the new tax system have yet to be issued by the authorities. This has disrupted cost accounting and export transactions.

B. About Imports

Between them, steady domestic economic growth and the easing of import restrictions will push up imports to about $160 billion in 1996, a gain of 20 percent compared with 1995. But even though imports are headed upward, there is only so much room for growth.

More than anything else, import growth will be fueled by the commodity composition of exports. Exports will increase mainly on the strength of a booming processing trade. And processing trade is dominated by foreign-funded enterprises. From our analysis of the trend over the past several years, foreign-funded enterprises have a greater inclination to import than export. In January-October 1995, foreign-funded enterprises accounted for 48.3 percent and 30.7 percent of the nation's total imports and exports, respectively, up from 45.7 percent and 28.7 percent, for all 1994. When exports by foreign-funded enterprises go up, it often means that related imports will increase at an even brisker pace. In 1996, over 50 percent of the increase in imports will be driven by the import-processing-export sector. What with the introduction of the new tax cut and exemption policy and the tightening of the supervision and control of the deposit system for imported materials, this portion of the nation's imports is not expected to deal a heavy blow to the domestic market.

The liberalization of import restrictions also will boost imports. China's import control system will undergo a major reform on 1 April 1996. For one thing, the overall level of tariffs will be lowered from the current 35.9 percent to 23 percent, a 36 percent drop, and quota licensing and import controls affecting 176 categories of commodities will be abolished. For another, import tariff cuts and exemptions will be terminated in principle. Lower tariffs and a reduction in import controls no doubt suggest that China will be importing more of the raw materials, parts and components, and important equipment needed at home.

Be that as it may, measures designed to improve terms of import, such as tariff cuts, will not lead to an excessive increase in imports. First of all, at 23 percent, China's average tariff level is still high relative to the average of developing nations, which is 15 percent. In particular, tariff rates and import restrictions affecting such commodities as automobiles, domestic electrical appliances, textile products, photographic equipment, industrial chemicals, refined oil, and farm products—the very products where developed industrial nations have a competitive edge and in which they are working hard to put on the Chinese market—will not be eased appreciably in the near future. A flood of foreign products pouring into China is a remote possibility. Second, China's nominal tariff rates have been very high, but a proliferation of tax breaks has already whittled down the real tariff rates to a much lower level. In 1992-94, for instance, China's real tariff rate was only 5.55 percent, 5.89 percent, and 4.02 percent, respectively. Effectively low tariffs may be a boost to imports, but they have probably already achieved such an effect in the past few years, so the latest round of cuts in the nominal tariff rates is not likely to send imports soaring. As a matter of fact, the simultaneous move to adjust some tax breaks correspondingly may actually offset the import-boosting effect of tariff cuts to some extent. Finally, traditionally how much China imports has not been primarily determined by the level of tariffs, but by changes in domestic demand. Rapid economic growth often leads to a jump in imports, even a trade deficit. In times of stable economic development, however, export growth accelerates while import growth slackens. This is why. The staple commodities imported by China are raw materials, electrical machinery, and production equipment essential to production. Import demand has very little price elasticity; the main variable is domestic demand. The modest appreciation of the renminbi in recent years has worked to the advantage of importers. On the other hand, we will continue in

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1996 the appropriately austere policy that the domestic economy requires, in effect weakening the demand for imports and keeping a lid on the funds required to pay for such imports.

II. Foreign Trade Policy Suggestions

The above projections regarding foreign trade trends are based on a comprehensive analysis of all the factors involved. What is important is to make the corresponding macroeconomic policy judgments.

A. It is a normal reflection of the operations of the economy for export growth to retreat in 1996. First, the robust growth of exports two years in a row—in 1994 and 1995—took place amid balanced economic growth at home and in response to the sharp depreciation of the renminbi. Today the export development policy environment is no longer as hospitable; instead of being pro-growth, it is now one of constraint, so a downturn in export growth is inevitable. If exports still manage to increase 10 percent or so in 1996—after two consecutive years of adjustment and growth—it is a sign that exports have returned to a state of normalcy. Second, for now we should not try to bolster the export growth rate artificially by engineering a quantitative expansion. Instead we should concentrate on lowering the costs of earning foreign exchange, improving the quality of export commodities, and increasing their added value. All policy-related factors should exert external pressure to expedite the transition from extensive exports expansion to intensive growth. Seize this opportunity to push a rational change in the export development strategy. Finally, promoting exports in order to capture a larger share of the world market is a major starting point of our medium- and long-term trade policy. Only by building up formidable export industries and exporting in a big way could we hope to power economic development at home. Be that as it may, a near-term trade policy must consider a variety of factors—international payments, price stability, and the amount of money put into circulation. At a time when foreign exchange reserves are increasing rapidly and China consistently runs a surplus in its international payments, any move to lower the official exchange rate of the renminbi based on the cost of exporting and earning foreign exchange with its inherent instability will do nothing to transform the mode of conducting foreign trade. Nor will it help stabilize commodity prices at home. It is an irreversible trend for competition to become internationalized and take place through the market. The starting point of any export development policy should be to improve the caliber of foreign trade enterprises and optimize the commodity composition through competition.

It must be emphasized that because of policy-related constraints, it is highly likely that conventional trade growth will level off in 1996. It would then be up to processing trade, which has been enjoying a prolonged boom, to prop up the export sector. This pattern of export growth lays bare the fragility of China's export composition. If it continues for long, it will be a major drag on economic development. Processing trade depends on foreign countries both as the suppliers of the raw materials it needs and as the markets to which it sends its exports. Moreover, processing trade has few linkages to the domestic industries and its added value typically ranges from a mere 10 to 20 percent. All of that has eroded the powerfulness of export as an engine of national economic development. Even more important, processing enterprises have a greater propensity to import than export. Their imports account for a significant portion of total imports. Foreign-funded enterprises have a low foreign-exchange-earning ratio and some even substitute imported equipment for investment. The upshot is that processing trade has now run up a deficit. From January through October 1995, the nation chalked up a trade surplus of $17.78 billion. Specifically, conventional trade reported a $26.45 billion surplus while processing trade had a $11.43 billion surplus. However, if adjustment is made for the materials and equipment imported to carry out processing, then the processing trade account would be in the red to the tune of $2.6 billion. Conventional trade is the principal source of China's foreign exchange earnings. If conventional trade growth slackens off, trimming the surplus, and processing trade picks up steam, China's foreign trade will show a deficit and the nation will have to rely even more on capital transaction surplus to balance its international payments. In the short haul, the growth of processing trade will not endanger China's balance of payments even though it may bring on a trade deficit, thanks to China's plentiful foreign exchange reserves. In the long run, however, it is an issue that must be given full attention.

B. A rising domestic demand and its growing alignment with the world economy make it all but inevitable for the magnitude of Chinese imports to keep rising. It is the trend of the times to lower the level of protection and gradually open up the domestic market. The most important thing a macroeconomic policy should achieve is to secure the full benefits of world trade liberalization and make the most of the infusion of foreign funds and technology in the course of cutting tariffs, dismantling non-tariff barriers, and opening up the Chinese market, at the same time cushioning the domestic market and the domestic economy from any resultant severe disruptions. In the short haul, we must pay attention to the following issues on the import front:

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First, the time lag. Concrete measures to lower tariffs and abolish quota management will not take effect until 1 April 1996. Even then, a period of time may elapse before they make their way to the import market. Accordingly, their impact on imports will not be felt until the second half of 1996. Tariff cuts always affect different industries disparately. They work to the advantage of some and the disadvantage of others. Generally speaking, tariffs have been cut and wider market access has been accorded foreign products only in those industries which are not the pillars of the economy but are quite competitive domestically. The impact on other industries that used to be protected by tariffs in the past but have become competitive at home should be quite minor. Among them are domestic electrical appliances, textile products, plastic goods, and metallic products. As for fledgling industries, the degree of protection afforded them would not be significantly reduced; even so the enterprises in those industries will come under competitive pressure. The move to reduce import restrictions on the capital goods needed for technological transformation at home and on the raw materials and parts necessary for export production will stimulate the development of related domestic industries. By increasing the imports in these areas, we would actually boost exports.

Second, the relaxation of import restrictions would not only alter the quantity of imports, but, more importantly, would also change the terms of domestic trade. Now that tariff rates are coming down, foreign firms in China which produce for the domestic market will see their import costs drop, which, in turn, will narrow the price gap between their products and similar domestic products, making the former more competitive. The market will be energized but the domestic enterprises affected will be dealt a blow. In addition to cutting tariffs, the government also abolished the preferential tariff treatments formerly given to foreign-funded enterprises in the import of materials, parts, and equipment, thus putting domestic enterprises and their foreign counterparts on a level playing field. For the domestic manufacturing industry, which relies heavily on imported raw materials, in particular, lower import tariffs mean reduced costs, which translates into more competitiveness vis-a-vis comparable imported merchandise. Therefore, a rise in imports would nourish national industrial development as well as disrupt the domestic market.

C. China was able to rake up trade surpluses in the past two years on the strength of a surge in exports and a relatively modest increase in imports. The trade surpluses have played an important role in driving domestic economic development and immensely boosting the foreign exchange reserves. Suppose exports increase 10 percent and imports 20 percent in 1996. Then the trade surplus will shrink considerably. Suppose also that controls on demand are eased in the second half of the year as the economy rebounds, then imports will likely rise sharply, leading to a small trade deficit with significant impact on the macroeconomy. To begin with, a downturn in exports will lessen the contribution of export toward the national economy. Suppose the trade surplus diminishes by $15 billion in 1996, or approximately 125 billion yuan, that would amount to 7 percentage points of industry's added value. The slowdown in the growth of conventional trade, in particular, will directly make export demand a weaker engine of economic expansion. Second, when exports slacken off just as imports pick up, domestic supply would become more plentiful, rendering commodity prices more stable. A shrinking trade surplus means that foreign exchange reserves would rise more slowly. If the flow of international capital into China slows down after the policy of attracting foreign capital is adopted, foreign exchange reserves would drop, leading to a proper downward adjustment of the exchange rate of the renminbi—and improved terms of conventional trade.

In view of the above analysis, the following measures should be taken to ensure steady and healthy foreign trade development in 1996:

First, expand the scale of exports while ensuring that export composition is optimized and foreign trade is made more profitable. To lift exports to a new high from the peaks scaled in the past two years, we must fall back on a better commodity composition and improved product quality. Right now, Chinese exports objectively speaking have entered a stage where we look to quality to generate more profits, where the goal is not only to export more goods and earn foreign exchange but to achieve a comparative advantage in foreign trade. We should make it our policy to "win on quality" and take practical measures to effect a change in the model of foreign trade growth. This is particularly urgent in the case of the electrical machinery and textile industries, which account for over half of China's industrial manufactured goods. More should be done here to raise the technological content of exports, improve product quality, gradually put an end to our dependence on processing trade exports, increase the domestic contents—be they raw materials, parts, or components—of exports, and enhance exports' added value. Foreign trade enterprises should work hard to lower export commodity costs, speed up fund circulation, and economize on operating expenses. At the same time, raise export prices as appropriate, limit the export of commodities which incur heavy losses, and

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popularize scale management in export at the same pace that we raise its profitability. The market diversification strategy should be implemented in earnest. Cultivate in depth the EC, North American, and Japanese markets, which all come under quota restrictions; consolidate our position in Southeast Asia and Latin America; and devote a good deal of effort to opening up the markets in the Commonwealth of Independent States and Eastern Europe.

Second, continue to push ahead with foreign trade reform. To begin with, rectify the foreign trade order more forcefully. Take stringent measures (such as doing away with the power to operate in foreign trade) in order to stem out disorderly competition which involves "hiking prices at home to procure merchandise and slashing prices overseas to outsell others." If disorder on the export front is corrected, foreign trade operating costs will come down and there will even be more room to raise export commodity prices. In 1996 we must continue to improve the bidding work for export quotas and licenses by expanding their scope, making it more open, and standardizing management. Secondly, encourage foreign trade enterprises to adopt scale management in order to become more efficient and competitive. In 1996 we must speed up the reorganization of the existing state assets of state-owned foreign economic and trade enterprises and, in conjunction with production enterprises, set up export bases for each industry as well as comprehensive chambers of commerce. Even as we accelerate the creation of export production bases, we should diligently popularize the agent system and expand our market share overseas as a means of promoting the steady development of conventional trade exports. Thirdly, put an end to the lag in import management reform by expediting such reform. In the course of reform, however, we must adopt practices and procedures consistent with international norms to protect the normal import order. As we import, we must make sure we are moving in the right direction based on the nation's macroeconomic policy and its supply-demand situation: Increase the imports of electrical machinery, which is in short supply and has a high technological content, and strictly limit the imports of products which are plentiful at home.

Third, enact policies that would give stronger support to foreign trade. Firstly, make policies to provide credit and insurance support. The Import-Export Bank and other financial and insurance institutions should provide coordinated services in cooperation with one another. Secondly, renminbi loans to export enterprises should increase at the same pace as the volume of exports. Funds needed for production, procurement, and technological transformation must be made available on a priority basis. Thirdly, further standardize the export duty refund policy to ensure that refunds are issued in full and on time so that export enterprises would have adequate working funds. The export duty refund rate must remain fairly stable to enhance enterprises' confidence in their operations and maintain normal business order. Fourthly, open up additional fund-raising channels for key export enterprises. Enterprises that meet the requirements should be given the power to raise short-term loans. These days a number of localities are taking effective interim measures to help tide the enterprises over this difficult period, such as setting up a local foreign trade development fund, refunding foreign trade enterprises the income taxes they have paid, and selecting profitable enterprises and successful products to receive special support, which have all done much to promote the stable development of foreign trade. Fifthly, use the exchange rate as a tool intelligently. A continuous increase in foreign exchange reserves may drive up the value of the renminbi. Therefore, we should do a number of things—repaying debts ahead of schedule, replacing commercial loans, and encouraging where appropriate the importation of equipment badly needed at home—to keep foreign exchange reserves at a proper level.

Fourth, create an appropriately relaxed macroeconomic climate to promote foreign trade development. Internationally, we should actively, but in an orderly way, accelerate our accession to WTO, continue to cut tariffs and dismantle nontariff barriers, decentralize the power to conduct foreign trade, and align our foreign trade fully with the international economy so that restrictions imposed by trade protectionism on foreign trade development would be reduced and our overseas market would be expanded. Domestically, we must formulate effective measures in response to the changes that may occur in the terms of domestic trade after import restrictions are liberalized. The domestic market is bound to come under more intense competitive pressure when protection is lowered and a number of inefficient enterprises, now stripped of protection, may not survive. The consequences of their demise—rising unemployment, declining wage level—must be given full attention. Moreover, enterprises should be offered assistance in structural adjustment, employee retraining, and other areas to mitigate the adverse social impacts. Second, based on the timetable already drawn up for cutting tariffs and dismantling non-tariff barriers, we should formulate a coordinated domestic industrial policy to nurture the development of fledgling industries. Industries that are already competitive internationally should make themselves more efficient and get more involved in the global marketplace.

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Agriculture

PRC: New Policies on Grain, Fertilizer Adopted

96CE0298A Beijing JINGJI CANKAO BAO in Chinese 25 Apr 96 p 1

[Report by reporter Fan Ping (5400 1627): "Local Authorities Introduce New Policies on Grain Procurement and Fertilizer Supply To Protect Peasants' Interests"]

[FBIS Translated Text] In accordance with the policy formulated by the state early this year on the grain procurement price and the chemical fertilizer price, more than 10 provinces and cities have introduced, sooner or later, since the beginning of this spring, some new policies on grain procurement and fertilizer supply that suit their local circumstances. The aim of all these new policies is to ensure that the peasants will be able to acquire chemical fertilizer at relatively stable prices on the same market, within certain limits, and in a certain period.

Sichuan province has decided to implement, as of this year, a reward policy that links procurement of grain and cotton by fixed quotas with the supply of chemical fertilizer. This policy particularly provides that apart from the 10 percent of products to be retained and sold by the plants themselves and the part ordered by the state, all the urea products that are not covered by the state plan are subject to provincial centralized distribution under the program of fertilizer sale in reward for peasants who sell grain and cotton by fixed quotas, or in support of specific disaster relief operations and of rationing rice projects. In this connection, all the urea products that are not covered by the state plan will be procured by agriculture goods and materials supply companies which will in turn centralize the distribution of chemical fertilizer in support of agricultural production across the province. The policy provides that any peasant who has sold 50 kg of grain under the fixed-quota procurement program will be entitled to buy 5 kg of urea in reward for his selling; or if he has sold 50 kg of cotton under the fixed-quota procurement program, he will be entitled to buy 25 kg of urea in reward for his selling. The provincial government has reiterated that local authorities are not permitted to frequently change the price of chemical fertilizer on every round of wholesale, but must sell the fertilizer at two fixed prices—the state-fixed price under the grain and cotton sale reward program and the integrated price of fertilizer for general agricultural production.

Hunan province has decided to raise the price of early long-grain nonglutinous rice by 15 yuan this year from the original price level of 44 yuan per 50 kg as formerly approved by the central government. The decision also provides that the grain price will not be raised any more after this adjustment of the fixed-quota grain procurement price, nor will there be different prices for different parts of the province, in other words, a unified grain procurement price will be applied equally to all the province from the new grain sale season this year. In the meantime, the provincial authorities will continue to be responsible for setting the grain ration price for urban residents, which will also come into effect across the province from the beginning of the new grain sale season. Grain marketed at negotiated prices within the province will be supplied within a relatively stable price range, with the profit rate kept under appropriate control, while the price for grain to be exported out of the province will remain uncontrolled.

Anhui province has fixed the fixed-quota procurement price for the four crops—rice, wheat, corn, and soybean, in compliance with the base price of grain and the price floating margin announced by the state. The price for 50 kg of grain has been raised by 15 yuan from the original price level of 52 yuan, with an additional upward floating margin of 10 percent. The provincial government has expressly provided that this lately readjusted fixed-quota procurement price of grain is to come into effect from the new grain sale season this year.

Fujian province's policy on the procurement price for this year's fixed-quota grain procurement provides that the procurement price of rice will be raised by 15 yuan from the original price level of 53 yuan per 50 kg, and an additional 10 percent upward margin will be allowed above this base price. At the same time, the province will continue to implement both the fixed-quota grain procurement policy that links grain procurement with fertilizer supply and the price subsidy policy. A unified management fee control system will be applied to the chemical fertilizer retail price system, the ex-factory prices for generic chemical fertilizers will be put under province-wide centralized control, while the entry port allocation prices for imported chemical fertilizer will be set by the provincial commodity price commission in a centralized manner. According to the concerned provincial department's prediction, this year the peasants in the province will actually gain 88.5 yuan for every 50 kg of grain they sell by procurement quota. With increase in grain growing costs taken into account, the actual net income the peasants gain thereby will increase by about 10 yuan over last year.

The Shaanxi provincial government recently approved the official ex-factory price and sale price of chemical fertilizer for this year. The ex-factory price of urea produced by chemical fertilizer plant is 1,700 yuan per metric ton for the portion that is to be procured

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under the state plan; 1,850 yuan per metric ton for the portion that is not covered by the state plan; and 2,000 yuan per metric ton for the portion produced in excess of the production quota. This year, the sale price of chemical fertilizer in the province is subject to control by a system featuring "level-by-level management, unified management charge rate, and strict supervision and assessment." Home-made urea is to be marketed at a unified integrated retail price set by the provincial department concerned. For those popular fertilizer products such as ammonium nitrate, imported urea, and di-ammonium phosphate, a province-wide integrated allocation price is to be set by the provincial department concerned, while the retail prices for other chemical fertilizers are to be set by local commodity price bureaus, according to the rule of one unified single price in the whole prefecture or in the whole county.

Jiangsu province has linked the supply of low-price urea with the grain and cotton selling quotas this year. Any peasant who has sold 50 kg of grain to the government will be entitled to buy 3.5 kg of standard fertilizer from the government as a reward; while any peasant who has sold 50 kg of ginned cotton to the government will be entitled to buy 30 kg of standard fertilizer from the government as a reward. At the same time, the provincial government has taken measures to exercise level-by-level control of the ex-factory price of chemical fertilizer and to centralize the setting of retail prices. In addition, this year the provincial department concerned is going to give full play to the existing two-tier chemical fertilizer marketing network which consists of two chains, namely, the wholesale chain for the marketing of urea, potassium chloride, and other chemical fertilizers, based on a contract relationship between the provincial agricultural goods and materials supply company and county agricultural goods and materials supply companies; and the joint marketing chain formed between county agricultural goods and materials supply companies on the one hand and grass-roots supply and marketing cooperatives on the other, based on various forms of relationship ranging from free association and association by contract to integration between the county and township levels.

Liaoning province has introduced a separate system for the management of chemical fertilizer supply, which is linked to the procurement of grain and cotton. Under this system, chemical fertilizer is supplied by coupon. Agricultural goods and materials supply companies at all levels exercise a separate fertilizer allocation system which links chemical fertilizer supply to the procurement of grain and cotton. A separate account is to be set up to keep record of the distribution of this portion of chemical fertilizer which is stored separately. When a peasant comes to sell grain as per contract, the grass-roots supply company staff will check the peasant's grain sale document at the grain depot, and then issue to the peasant a "chemical fertilizer supply coupon," which is prepared and printed by the provincial agricultural goods and materials supply company in a unified manner. With this coupon, the peasant can buy a fixed amount of chemical fertilizer from the local supply and marketing cooperative, after the grain and cotton procurement period ends. Planned supply procedures also apply to special fertilizer supply programs other than the supply program that links fertilizer supply to grain and cotton procurement.

*PRC: Analysis of Agricultural Policies

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[Article by Li Chenggui (2621 2052 6311), affiliated with the CASS (Chinese Academy of Rural Sciences) Rural Development Studies Institute: "An Analysis of the Crucial Problems in China's Major Agricultural Policies"]

[FBIS Translated Text] Since 1949, the PRC's agricultural policy has been in practice for nearly a half century. In that time, due to changes in international relations and our domestic political and economic order, as well as to certain perceivable ideological changes, our agricultural policy has also undergone frequent change and adjustment. In particular, the rise of our second generation of leaders has brought crucial change to our agricultural policy. In short, the agricultural policy pursued by our government in these decades has achieved successes acknowledged by the whole world, with all indexes reflecting a marked improvement in our overall agricultural output capability, and our agricultural development having made an enormous contribution in driving and developing our national industrialization. But our real agricultural successes are still far from the ones that we should have made. While we often brag about "feeding 21 percent of the world's population on only 7 percent of the world's arable land," we rarely mention the other side of the coin, or that we support only 7 percent of the world's nonfarm population with 40 percent of the world's farmers. China's agricultural development seems to have never had a sound, relatively stable, and effective policy support system, with the government's various agricultural policy mistakes, errors, and omissions having been numerous, which has put a profound stamp on our agricultural development. So we need to make an in-depth analysis of the crux of its major problems.

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I. The Transitional Bias and Extremist Trends of Our Policy Goals

In these decades, much policy phenomena has probably been quite complicated, even to the point of leaving us, who explore its various significance and interrelations, hopelessly confused at times. But as to most people, the deepest impression left by our past policy practice seems to be its extremist trends and a certain degree of arbitrariness. Such a feature even leaves one with a sense that policy change is capricious. And just how has this come about? I hold that in addition to the unique feature of China's agricultural population, that it is so large that the government has had nearly no international experience to draw on directly when making decisions, the essential reason is the bias and limited rationality of China's particular political order and policymakers, or the various interpretations by government of the political and economic objectives of policy-making.

A. A Necessary Theoretical Explanation

As all know, government works hard for the dual goal of the strongest political support with the highest economic gain. In all sovereign countries, every policy assumes a dual political and economic mission. The economic objective observes the principle of efficiency first, with its need being to form an exclusive and transferable property rights structure, to make the dispositon of resources more efficient. But the political objective is essentially not bound by the principle of efficiency first, being restrained rather by factors such as political, military, social, historical, and ideological. And while it can be said that government makes policy in an exchange of political and economic objectives, the problem is that the exchange is often imbalanced in that, when the government is setting policy plans and their changing directions and dynamics, if the political and economic objectives clash, the political goals are met first. Particularly under the form of system change dominated by supply in a country with centralized state power, the government's political objectives often control its economic ones, or the prerequisite for government initiative in system pioneering is for anticipated political gains to be greater than political costs. So the interrelations between political and economic goals are the key to understanding a country's government policy. In detail, in a particular socioeconomic development stage and on given resource limitation terms, or when a society's resource supply meets its assumptions, the more resources invested by the society in the political arena, the less resources it can invest in economic production, and vice versa. So a society's resources are subject to a trade-off [source-supplied English] relationship in their political and economic disposition.

To explore and develop our theory further, we still need to distinguish two types of political products [results]: 1) Political products provided within certain limits that can improve socioeconomic operating efficiency and economic organizational efficiency, thus playing a direct or indirect role in supporting, ensuring, and promoting the production of economic products. We will call them political product A; 2) Political products that do not play the above roles, which we will call political product B. As to this distinction, Roland Pennock's (1966) authoritative study is profoundly enlightening. Pennock makes a pioneering analysis of political products in his crucial article: "Such products refer to the public, the whole society, or other branch systems beyond the system of government such as the economy or the family. And while we are in fact still analyzing here the realization of political objectives, our attention is focused on those objectives that can meet needs—not just national needs per se, or those that preserve the state—but rather human needs. It is only by meeting human needs that policy is of value to the society and proves its raison d'etre." So we can use this standard of justification to distinguish the two types of political products.

As to a society's development, a certain amount of political product A is particularly essential. 1) Rudimentary political stability is indispensable to enabling every member of the economic society [business community] to plan for the future and be sure that a relatively stable relationship exists between their remuneration and their contribution to economic activity. It is hard to expect a society that is in political chaos and turbulence with an unpredictable regime to achieve much economic growth. Economic prosperity in all countries is inseparable from and premised on political stability. 2) As a country's government has to resolve the conflicts of interest that inevitably arise in the course of economic change and growth, it needs to be able to promptly discover such conflicts and minimize as much as possible their role in curbing further economic growth. 3) All interest groups need to have ways to express their views and demands, so that the government will consider their interests when making crucial policy decisions. In short, such terms can be said to be certain political prerequisites for economic development. Historically, such political development often becomes the central process in the course of larger-scale modernization. As to the first country to modernize, or Great Britain, most innovation and pioneering came from the society and the economy, while the political system played a driving role. And as to the second group of countries to develop in Western

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Europe (such as France and Germany), the political system played an even more crucial role in their economic and social modernization.

But on the other hand, if a society's resources are steadily deployed on a large scale to produce political product B, that is bound to sharply curb the production of economic products. Large scale political campaigns and class struggle not only ruin the chance for economic development, but even push the economy to the verge of collapse.

Excess and unchecked political product B often occurs in a system of centralized state power. That is because from an organizational structure and policymaking forces perspective, the form of decision-making power over resource disposition (or control of resource utilization) in a system of centralized state power is sharply concentrated at the highest level of the hierarchy of social organization. The public is mobilized to carry out policy already formulated by the supreme policymakers, having no chance to take an active part in the policy formulation. In other words, as the society's key leaders or central policymakers (certain individuals or groups), who hold the supreme policy-making power, play a governing role and have a powerful organizational impact in deciding the disposition of the whole society's scarce resources, they are able to deploy the society's resources to designated uneconomical political ends in a large-scale campaign form based on their own biased systems and efficiency parameters. The key leaders can often act in line with their personal biases and ambitions to set the official objectives for other members of society and the formal structural (organizational, group) or social goals. In setting or interpreting the official objectives for ordinary members of society and the formal group goals, the key leaders often have great arbitrary power. That is essentially because in a system of centralized state power, there is no uniform, clear, long-term, and generally accepted definition of official objectives in advance. For instance, what are the society's needs? What are the national interests? And what are the public's interests? These are largely not clear at a glance or defined distinctly, rather even left confused and hazy. Their interpretation or definition often differs by the personality, varying by circumstances and the biases of the key leaders. It is precisely such vagueness that gives the key leaders in that particular system framework such great arbitrary power and free latitude in clarifying and particularizing official goals through interpretation or redefinition. It is even as Pierre Leroux (1848) noted, that he could manipulate public opinion with his power, so that the truth he held to and propagated "would finally whitewash all so-called institutions, covering up their flaws and blemishes." So in the course of deciding the disposition of a society's resources, the key policymakers with the controlling status in a system of centralized state power invariably weigh the pros and cons in line with their own biases, choosing an order of social resources disposition that is most effective for them personally. In such a model of dual established goals, as to the key policymakers, the best order of resources disposition is one in which the marginal utility of the economic product equals that of the political product. So at any particular time, a key policymaker biased toward political product B can decide to produce more political product B and less economic goods, while one favoring economic goods can decide to produce more economic goods and less political product B.

It is thus obvious that in a system of centralized state power, the personal biases and the understanding of policy objectives of the supreme policymakers sharply affect the ultimate policy choices, putting a deep stamp on policymaking. A search for the nature of and crucial factors in the policy can most directly find the key here. If the supreme policymakers are biased toward or loyal to political product B, as in China's frequent past political movements where "class struggle was emphasized yearly, monthly, and daily," the policy-making will have many associated features, with political needs replacing economic laws, which lays the grounds for politics to override all else. Such policy operations result in wasted social resources and low economic efficiency. The most marked policy-making feature is that policies are unstable, not serious, and unscientific, easily tending to extremes. That is because political products are an outcome of the spiritual and ideological world—unlike economic products that can be judged by specific indexes—so that they hinge largely on subjective interpretation and judgement. And a supreme policymaker who is deeply involved with his own authority and internal unity is most concerned about political issues and motives, devoting his efforts to forming an action orientation of politics first, or "politics in command." He is very sensitive to any suggestion of personal freedom or orientation that undermines his authority, to which he reacts quickly based on the political clues, even to the extent of "suspecting everyone and beating down all [opposition]." On such terms, policy succession is likely to be abnormal and go to extremes.

B. Extremist Trends in China's Agricultural Policy: Certain Proofs[1]

The first example is the cooperative transformation of agriculture [the agricultural cooperative movement]. We know that in land reform, the government sharply redistributed economic resources and political power in the rural areas, laying fine operating grounds for the

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agricultural cooperative movement: 1) It made inherent demands that producers who were given small plots of land act in mutual aid and cooperation; 2) The government successfully honored its promise to the peasants, with its policy of "land to the tiller," establishing the government's rural authority, to lower the cost of enforcing new policies.[2] So the government, as the "second action group" (North, 1981), could proceed safely and effectively with its system-pioneering agricultural cooperative movement. But due to the personal bias and limited rationality of the supreme policymaker, this process eventually also experienced deviations and went to extremes. While the CPC Central Committee had planned to complete its agricultural cooperative movement in 15 years or more starting in 1953, it actually did so in the short period of less then four years. That consequently violated to a certain extent the peasants wishes, infringing on certain peasant interests, to pave the way for equalitarianism. The subsequent evaluation of it in the "Party Resolution on Certain Historic Issues Since the Founding of the PRC" was that it "made too urgent demands, with the work being too roughshod, the change too fast, and the form oversimplified," with its rashness being inseparable from Mao Zedong's understanding and position.

Undoubtedly, as the founder of the PRC, Mao Zedong was always acting in line with his own perceptions to explore ways to make China strong and prosperous, with the direction that he strove in for the last half of his life being to make China stronger and more equal. But while he was familiar with political struggle, he was probably somewhat less so with economic construction, or it could be said that political objectives were probably more important to him than economic ones. In 1955, Mao Zedong noted in a report called "Agricultural Cooperative Movement Problems" that socialist industrialization cannot coexist with a small-scale peasant economy, which can neither produce the needed surplus or create enough market demand for manufactured goods, so must be transformed. And while that was obviously right, the problem was that Mao Zedong linked it closely to class struggle, so that the agricultural cooperative movement was unavoidably subject to deviations.

China's agricultural cooperative movement performed a quite obvious political mission, with the government's aim being to use it to thoroughly destroy the rural order left by the old society. But its methods involved a certain fondness for the grandiose and impatience for quick results.[3] Consequently, his pursuit of political gain affected his economic effectiveness. While the cooperatives were originally organizations formed to make use of the outside economy by economic parties [players] who felt isolated and helpless, China's agricultural cooperative movement obviously went astray. And while open violence certainly did not occur regularly, coercive elements were obvious. Engels said in his 1894 "The French and German Peasant Problem" that "while our duty to small farmers is to first turn their private production and holdings into cooperative production and holdings, we will do so not by violence, but rather through demonstrating that our aim is to provide social aid." But China's cooperative movement obviously violated that. Meanwhile, I believe that the cooperative system pursued by the government was already totally confused with its collective system. I can imagine that if the agricultural cooperative movement had not gone astray out of impatience for quick results, the potential energy released by land reform, which had been so long tied up by the feudal land system, might have brought much more effective "hypernormal growth" than the subsequent production responsibility system produced.

An example that probably illustrates the problem better is the people's commune movement. Once the agricultural cooperative movement was completed ahead of schedule, Mao Zedong and others did not sense its flaws and hidden troubles, rather being greatly inspired by it.[4] So they went on to launch in 1958 the people's commune movement which, in a few short months, merged the 740,000 agricultural cooperatives throughout China into 26,000 people's communes, with the participating peasant households accounting for over 99 percent of all peasants. The free transfer to the higher authorities of production team assets on a commune-wide scale undermined the principle of exchange at equal value, severely dampening peasant initiative. In addition, the movement's "leftist" deviations such as high standards, blind command, proneness to exaggeration, and communist style sharply disrupted the agricultural productive forces, turning the vast rural areas into a poverty-stricken society, which was the direct cause of the three-year "time of difficulty."

So what was the cause of such extremist rashness? It was similarly inseparable from Mao Zedong's ideology, even to the point of being inextricably tied up in a certain sense with his utopian thinking and personal feelings.[5] After the cooperative movement, Mao Zedong was absolutely confident about his leap-forward style of economic construction. In Mao Zedong's mind, the people's communes were a matchless form of social organization, and he particularly admired their "large size and collective nature." On inspection tours in places such as Hebei, Henan, and Shandong, he declared that "the people's communes are a good thing." Mao Zedong's ideology was that a society's progress could be seen in its movement to a "higher form" of social organiza-

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tion. He held that the conversion from individual family farming to collective agricultural organization was an expression of such a movement, even believing that he had found in it a bridge to communism. Under Mao Zedong's influence, an expanded session of the PRC Central Committee Politburo at Beidaihe in August 1958 passed the "Resolution On Setting Up People's Communes in the Rural Areas," which confidently pointed out that "it appears that the realization of communism in China is no longer a matter for the distant future." From today's perspective, that seems somewhat of a farce as, three decades later, the 13th Party Congress clarified that Chinese society was still in the initial stage of socialism. But in looking back at that period of history, we also find that certain other senior policymakers were also fanning the flames. For instance, Liu Shaoqi particularly endorsed the rush to communism, with the Xushui County experiment in communism having been conducted under his direction. Of course, in Mao Zedong's time, other leaders were probably nothing but supporting actors.

As I see it, the choice of the people's commune system and its changing movement form involved a clear political motivation and bias. In such a system, vast social resources were deployed to the production of political products. For instance, compared to matters such as rural economic and political control, the ability to draw on resources, social equality, loyalty to the regime, political stability, and ideological purity, the production of economic products was severely inadequate. In fact, it was not long after the people's communes were set up that the three years of difficulty occurred, with many places throughout China experiencing severely tragic "starvation, illness, flight, famine, and death." In light of such conditions, certain places started to try out the farmland responsibility system, particularly Anhui Province where, with the support of Ceng Xisheng [2582 1585 5110], provincial party committee secretary, the "farmland responsibility system" was practiced for a time throughout Anhui. But that experiment was very quickly criticized by Mao Zedong who, at a Beidaihe meeting in August 1962, listed his primary targets of criticism as the so-called "three evil winds" and the "tendency to return to individual farming." So the "farmland responsibility system" was eventually stamped out by his powerful political will.

Finally, I would note that the decollectivist trend of China's farm economy reform of the late 1970s was a case of going from one extreme to another. After the end of the Cultural Revolution, order in China improved sharply, with the former political interest groups being smashed and cleared out, which was held to be a valuable gift of the Cultural Revolution to the new age. (Zhang Yuyan [1728 1342 3601], 1995.) In addition, as China had come through nearly three tortuous decades of suffering, in which it had acquired a series of experiences and lessons to draw on, the government's policy-making should have avoided impatience for quick success and extremist bias. But the reality was that "the first step of rural reform that instituted the household contract system became similarly impetuous. Once the general responsibility system was seen to be having a good effect, it was immediately disseminated as the general (almost the only) form, spreading to the whole country in a very short time, to account for 96.6 percent of all peasant households and 99 percent of all former production teams, with its contracted land making up 95.7 percent of all arable land in the rural areas. So its "indiscriminate application" occurred on no less a scale than had the cooperative movement in its time. (Niu Ruofeng [3662 5387 1496], 1989.) In short, the government did not give overall cautious consideration to the distinctive and complex nature of farm operations and its policy needs, so issued the all-out order to simply dissolve the people's communes.

As to the causes of such a phenomenon, there seems to have not yet been any profound analysis. I hold that there were two possible causes: 1) The theoretical limitations that are laid out in the following section; 2) The change that had occurred in the understanding and choice of government policymakers toward political and economic objectives. As Armand (1978) noted, "a product that seems very important in one political system may be regarded as very low in value in another, even to the point of being treated as absolutely useless or reactionary." In my view, after the end of the Cultural Revolution, the government's aim in abandoning the people's communes was to discard the political products that had been severely hampering economic development, so that the all-out rejection of the people's communes was due to their political symbolism. And while that was politically logical, the problem was that the government did not fully consider and make step-by-step plans in its choice of either the system to replace it or the rate and force of the system change.

The results of this extremist trend of decollectivization were two negative effects that we are still feeling: 1) The public assets that peasants worked so hard to create in the collective economic system were very quickly gobbled up, undermining the crucial grounds for the long-term development of agricultural production. Just as the author of "Viewing China Through a Third Eye" notes, "to present a fait accompli, as well as to quickly acquire real profit, peasants in many places destructively divided

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up public assets overnight." And as Mr. Niu Ruofeng [Newelfen] points out, "when practicing the general responsibility system, many places saw the destruction of farmland water conservancy works, with the dismantling of mechanical equipment, and the dividing up of collective assets, which required much subsequent reassembly at great cost."[6] And that cost was more obvious by the time of the 1985 agricultural slump (mainly in grain output) as, in the rural areas that had not destroyed their farmland infrastructures, agriculture not only did not suffer, but showed relative growth momentum instead. 2) From early 1983 to the spring of 1985, after "commune [business] management was separated from government administration," most communes stopped their collective economic activities, which paralyzed a series of economic management functions that they had performed, disrupting the lines linking higher level governments to villages, and obstructing the development of all causes for a time. So while the public version in the early 1980's was that the authorities absolutely denied that the deregulation of agricultural operations meant a repudiation of the collective economy, some dozen years of practice show that the collective economy per se has been sacrificed to the new policy.

II. Theoretical Poverty and Policy Design Flaws

While social science knowledge and theory are the grounds for and direct basis of policy formulation, they had long been a policy appendage and footnote in China, with the field of theory having always been left to wither somewhat, even to the extent of containing many errors and blind spots. Particularly in the years before reform, with the political walls cutting off theoretical light, and the public's right to free speech having always been smothered, such restrictions and prohibitions had made it very hard for theoretical exploration to proceed at all. And such theoretical poverty was bound to result in distorted realities and create policy design flaws and poor overall policy effectiveness.

As to the choice of the collectivist route, the flaws in its theoretical grounds are quite obvious. M. Ellman warns us in a very insightful article that: Marx per se, as well as Kautsky and Lenin, emphasized the economical aspect of agricultural operations of scale to the neglect of their uneconomical side, in that "while a large-scale organization of the workforce is efficient, it works only with the necessary effective planning, management, and accounting." And Ellman also notes that "as to whether operations of scale are economical or not, there is a sharp difference between agriculture and industry, which can be seen at a glance by looking at the experience of capitalist countries."

Going deeper into the theory, the efficiency of collective agricultural action hinges on the calculated result of the effect of its acquired technical scale and the damage it does to system efficiency. While the technical scale effect is rooted in the inseparability of [production] factors [essentials], as the inseparability of agricultural production factors is certainly not obvious, the scale effect in agriculture is much smaller than in industry. And on the other hand, as system efficiency loss is rooted in the transaction cost, the difficulty in overseeing farmworkers means that collective operations also create more efficiency loss in agriculture than in industry. So agriculture per se is certainly not suited to being a collectivized industry or, at the very least, collectivization is not the most effective means of farming.

As to China's choice of collectivization, leaving aside the political goals pursued by the government, to focus on economic objectives alone, government policy seems to have seen only the possible technical scale effect of collectivization, while being unaware of its system efficiency loss. I hold that the basic cause of this is that government policy-making mixed up the empirical value judgement with the practical one. [Max] Weber set forth the value-free theory in his 1904 work "An Objective Understanding of Social Science and Social Policy," rigorously distinguishing the empirical from the practical. He holds that empirical value judgement is essentially logical judgement based on scientific law, while practical value judgement is subjective ethical judgement in the field of economic policy. The choice of economic policy not only needs to be guided by empirical economics theory, but also needs the intermediary of practical value judgement to draw on. As China's past policy choices actually denied the distinction between these two value judgements, summing up practical value judgement as empirical value judgement, in an attempt to deduce a practical value judgement directly from their understanding of Marxism, they overlooked the uncertainty and risk in immediate economic activity, even cutting and emasculating reality based on that understanding. And the input and use of the collectivization policy were consequently divorced severely from real agricultural development needs, causing much conflict and waste. So while the government's ideological indoctrination played a certain lubrication and transaction cost-saving role, the agricultural collectivization policy was still very ineffective.

After the Third Plenary Session of the 11th CPC Central Committee, while China's rural economic policy underwent a series of crucial changes, creating a rural economic miracle, we do need to recognize that it is a bitter endeavor to convert human understanding from the realm of necessity to that of freedom. The theory of

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a socialist market economy has been finally established only through some dozen years of reform practice and exploration. At the start of reform, there was even a period of theoretical void, with no profound exposure and theoretical analysis of the inevitable pain and cost of reform, so that reform progress was dependent mostly on a sort of faith, not an empirical value judgement. This theoretical limitation was bound to affect the exploration of plans for the best staged policy for immediate market-oriented reform goals, resulting in government policy-making errors on certain specific issues, and giving the choice of policy means or tools an obvious shortsighted tendency.

The abovementioned agricultural decollectivization error is a case in point. At the start of our agricultural operations reform, government policy-making seemed to be grounded merely in a sort of faith in renouncing the inefficient collective system, while lacking thoughtful consideration of the various consequences and chain reactions that such a crucial system change could touch off. The reality was that in the five years from 1979 through 1983, while the government changed yearly its version of the household responsiblity system of remuneration based on output, it obviously lacked theoretical reserves and policy designs for agricultural trends after instituting the responsibility system, such as changes in the policy structure touched off by the responsibility system, and coordination matters, particularly new policy service demands that the responsibility system might bring. On such terms, new problems were forever emerging through policy cracks and "undefined" areas, so that to correct errors and stop up loopholes, the government had to frequently draw up supplementary regulations. And from its neverending "documents" and "circulars," we can gain insight into that state of affairs.

Another obvious example is the recent policy of the so-called "delinking" and "weaning" of agricultural dissemination organizations. This is nearly an unforgiveable mistaken policy. While individuals can change their form of behavior in line with the various market shocks, the government must not lose its direction, to shirk essential obligations. The consequences of temporary errors in government behavior can be made up only by redoubled efforts. As all know, the society's common goods must be organized and supplied by government, which is a matter that the market cannot handle. Throughout the world, agricultural research and dissemination as a public cause receives government fiscal support and organizational guarantees. In a country like China with such a small scale of peasant operations and so little accumulation, while government responsibility is exceptionally crucial, the policy of the last two years has violated all principles, with the government method being to attempt to handle the matter through the market. That has consequently hindered the dissemination of agricultural research achievements to the rural areas, causing a series of severe consequences.

In short, ever since reform, our agricultural policy climate and structure have undergone enormous changes. This means that to realize potential profits, the government should have made suitable changes in its policy planning. But due to theoretical and intellectual limitations, the real policy supply has often been wrong, obstructing the directed choice of creative policy possibilities, to lower overall policy effectiveness. Due to these theoretical flaws[7], government policy-making has had a flavor of empirical policy-making style and "groping along," with an obvious feature of constant mistakes and neverending changes. Consequently, policy change has been uncertain, with a certain policy signal having just been issued and probably not yet having played a directive function, but having to give way very quickly to another policy signal. Or while a new policy solves or partially solves an old problem, it touches off a new one, requiring that it be revised or amended. In this sense, government policy-making has certainly been left in a passive state of "mending the fold after the sheep are lost."

III. Policy Capriciousness: The Short-Term Status

Perhaps the greatest danger in government policy-making is its capriciousness. Policy starts and stops, even to the extent of a certain amount of revisionism and retrogression, are bound to affect human behavioral choices and the rational flow and disposition of resources, bringing economic chaos, to lower policy effectiveness.

We have seen that the reform of our farm product purchasing and sales system that started in 1985 has remained in just such a mistaken cycle. While the government's reform thinking in 1985 was to use the "dual-track" form to open up an arena where market forces could exist and develop, to gradually achieve exchange at equal value with peasants, our farm product market has in fact always been in a state of apparent but not actual deregulation, deregulated at times but controlled at others. Especially when farm product shortages have occurred, the "dual-track system" has seen obvious tightening down and a certain amount of backtracking or retrogression. For instance, first the monopoly purchasing of hogs was resumed, and then the exclusive-operation [franchise, monopoly] system for rice was instituted, with the real operation of the contract purchasing of other farm products also having changed into "nonmonopoly monopoly purchasing." Impacted by

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that, farm products have been at most subject to "selling difficulties," and at least to the occurrence of one alarming trade war after another, severely undermining their normal circulation order. So such abrupt changes have left the reform of our farm product purchasing system, that started in the mid-1980's, with the danger of all-out retrogression all along.

As to policy vacillation and capriciousness, the last two years of change in our grain purchasing and sales system has made an even deeper impression. Such change simply must be seen as backtracking. While the original reform direction of a socialist market economy meant that abolishing the monopoly purchasing and sales system was the proper and irreversable trend, after the autumn of 1993, when market grain prices had just started to rise, central government administrative interventions immediately went into effect. Hard-line administrative means were used once again, such as instituting constrained prices, raising the low-price purchasing volume (to set state-controlled trade grain at 70-80 percent), closing down the market, and trying to resume exclusive grain operations, which shelved the policy of "guaranteed-volume price deregulation" that was to have taken effect in 1994, to bring sharp signs of a replay of the state monopoly purchasing and sales system. That left the results of the separate local grain reforms of previous years to have been almost completely wasted.

In fact, as grain prices had just started to rise, not yet having reached the critical point where intervention would have been needed, it was unnecessary to rush so quickly to administrative intervention. 1) That was because the relative importance of grain consumption to the urban lifestyle was already down generally. And the driving impact of grain market prices on overall market prices was also far less obvious than in the past. 2) More importantly, government administrative intervention was quite likely to have the opposite effect than desired, not only adding to the government's fiscal burden, but also likely to recreate "selling difficulties" and regional blockades, further distorting the relationship between producing and marketing areas. In any case, the government should not have taken this one step forward, two steps backward, in its market orientation, rather than having expanded its use of market forces. Establishing a nationally unified market, to bring regional advantages into full play and speed up structural conversion, is the only way to solve our grain problem. If any grain price volatility brings a resumption of administrative controls, for a replay of the state monopoly system of purchasing and sales, that will neither stimulate grain production in the short term or contribute to structural adjustment in the long run, so is an unwise policy.

In summary, the various forms of mistakes and errors in China's agricultural policy in these decades of practice are an unambiguous historical fact. But we must not merely notice such a "phenomenal world," rather needing to delve into its "real-world" background. So our studies must not merely show an interest in policies of a year or two, even less so treating theoretical alienation and poverty as a policy footnote, rather acquiring an ever growing awareness of the truth through steadily intensified theoretical exploration of the long-range process. That will be particularly crucial in reaching the goal of optimizing China's agricultural policy. As we know that market reform is making China's economic components and economic relations even more complex, bringing sharp change to our external agricultural terms, internal operating forces, and policy service demands, a sound and feasible policy adjustment system for agricultural development on market terms will be of crucial importance. And to make the best choice of possibilities, we will first have to come to a profound understanding of the major crucial problems in our past and current agricultural policy.

Footnotes

1. All of the historical data here, except where specially indicated, comes from "The Cambridge History of the PRC," edited by John K. Fairbank et al, CHINA SOCIAL SCIENCES PUBLISHING HOUSE, 1990; "The Historical Records of the PRC," edited by Yuan Chunqing [5913 4783 3237] et al, RED FLAG PUBLISHING HOUSE, 1994; and PEOPLE'S DAILY, 1958.

2. Montrose said in "The End of the Peasant" that "every new system of government and every new political school tries to lay roots in the rural areas by doing something for the peasants." After the founding of the PRC, the first "thing done for" the peasants by the government was land reform, setting off a scene of "really bustling about dividing up the land and the fields" throughout China. That movement was particularly successful. As all know, throughout Chinese history, whenever things became unbearable, the peasants would revolt, with their only aim being to get the land that they so desired. China's earliest peasant rebellion set forth the slogan of "sharing the land and doing away with the grain tax," while our largest peasant uprising took the "land mu system" as its platform. Chinese peasants always fought for land, which was an age-old dream. By the time of Mao Zedong, as his familiarity and insight gave him a profound knowledge of what Chinese peasants were dreaming of and would give their lives for, he unhesitatingly launched the land reform movement. In fact, a crucial reason for the success of Mao Zedong and his

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comrades in arms was that they had recognized the importance of land during the war years, so that once they got a foothold in the Jinggang Mountains, they started to divide up the land, dealing with the long-standing aspirations of the peasants. And to protect such hard to come by land, the peasants who had been given land fought unusually bravely. By the time of China's War of Liberation, the peasants who had acquired land left their families for the front lines, delivering grain to the front even if it meant doing without themselves. Of course, while that involved both revenge and support, it was mostly to protect the land that they had come by with such great difficulty. And after the founding of the PRC, as land reform successfully solved the land problem for poor peasants, the new regime found a most reliable base in the interior rural areas.)

3. At the Spring 1995 Nanning Conference, Mao Zedong responded bluntly to criticism by Chang Xiruo [1728 1153 5387] and Chen Mingshu [7115 6900 2873] about his "fondness for the grandiose, impatience for quick results, disdain for the past, and blind faith in the future" that: Yes we crave questions and success, greatness for 600 million Chinese and success for socialism, about which we are impatient for quick results.

4. Mao Zedong often said that: "While the great victory of 1949 certainly did not make me happy, by 1955 when I saw so many peasants in cooperatives, I did start to feel happy."

5. For an authoritative work on the relations of a leader's personality to the nation's system of government and policy choices, see [Bertrand] Russell's 1938 work "On Power: An Analysis of New Societies."

6. As to such destruction some with rural histories may have deeper experience. But in my hometown, small tractors were very quickly dismantled beyond recognition, with even waterwheels being torn down and divided up. So people are still using ancient water-drawing methods, which have caused repeated accidents.

7. Some supplementary explanation is needed here. The theoretical limitations had many causes such as past macroeconomic climate fetters, distortion of the truth by political power, and too short a time of accumulation of human resources. The short-term stand was that there was to be no controversy, with the idea being to do what was seen as being right, to reduce wrangling and efficiency loss. And while that was the work style, some misunderstood it to mean that there ought to be no theoretical debate, which inevitably affected theoretical progress, and often made it hard to see what was right in practice. The famous contemporary scholar Yu Yingshi [0151 5391 2514] noted that "the essential nature of empirical science limits it to solving only one specific problem after another, leaving it unable to take on the task of making overall judgements." But in fact, while eager people may have ignored the limitations of science in pressing situations, the current political situation in today's China means that we can tolerate the resolution of certain theoretical issues. No controversy does not mean no theory, as the actions of a great nation are unable to do without theoretical guidance. On the "no controversy" debate, see [Minister of Culture] Wang Meng's "The Wisdom of No Controversy," DUSHU, June 1994, and Zheng Yefu's [6774 0048 1133] "In Defense of Debate," DONGFANG, March 1995.

***PRC: Suggestions on Avoiding Future Grain Selling Problems**

96CE0264A Beijing NONGMIN RIBAO in Chinese 19 Apr 96 p 1

[Article by Jiang An (3068 1489): "In the Aftermath of Solving the Grain Selling Problem"]

[FBIS Translated Text] Early this year, Jilin's many peasants still had more than 4.5 billion kg of grain on their hands (not including the portion the peasants kept for themselves), and more than 4 billion kg of that was corn. When the peasants cannot sell their grain, they have no money to buy seeds and fertilizers, which will directly affect the next spring's planting. "No sale" makes life tough for the masses of peasants, but it also worries the province's cadres and citizens.

Upon learning of the situation, leading comrades of the State Council instructed the banks to promptly guarantee grain procurement funds, and the grain department quickly began to procure the surplus grain. On 19 March, Jilin's many grain collection and storage departments began posting the following notice: Doors opened for grain procurement; cash paid; immediate payment upon delivery. Nongan is the country's largest grain-producing county, and for several days in a row, many of its grain depots remained open to take delivery well after 2 AM. The nation's second and third largest grain-producing cities, Yushu and Gongzhuling, took in as much as 80-90,000 tons of grain a day. The state's grain depots functioned well as the main channels. Because huge amounts of grain had to be stored within a short period of time, and because of the days of rain mixed with snow, the grain department made use of stoving facilities around the clock, and workers manned air- and sun-drying areas 24 hours a day, and when the more accessible depots along the trunk lines were full, they promptly moved to the distant storage facilities and tried to buy up the peasants' negotiated-price grain as quickly

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as possible. Today, all of Jilin's grain depots are filled to the brim. The masses of peasants are very grateful. They say, "Last year, all the corn was sold out, and when the grain storage people came to buy our corn, we ignored them. This year, the peddlers are gone, and everybody has leftover corn. If not for the CPC and the state to take care of us, what would we have to plant with this year?" The peasants cry, "Long live Communism!"

After selling their surplus grain to the state, Jilin's masses of peasants now have the money to buy the means of production for spring planting. Study shows the peasants are spending more, not less, on capital goods this year.

Jilin's grain selling problem is basically solved, but it leaves people with some serious thinking to do.

In 1995, Jilin suffered severe natural disasters; 20.075 billion kg of grain was produced, not a record year. Why was there such a serious problem with selling grain? The state's lack of grain procurement funds and its limited grain storage capacity had to share part of the blame, but I believe that the major causes of Jilin's grain selling problem were, one, the peasants' unrealistic expectation of this year's corn price.

Last year, after New Year's, the market for negotiated-price corn was surprisingly "brisk." Many out-of-town customers flocked to Jilin; prices rose again and again, and at the peak, it sold for 1.50 yuan per kg. From there, the peasants drew the wrong conclusion: They should not sell their negotiated-price grain first in the fall. So, this year, upon completing the state's fixed quota procurement responsibility, nobody would sell his surplus grain to the state. In the north, it was freezing cold around New Year's; even the grain was cold. It was the best time to buy and store corn. Back then, the state grain storages offered to buy corn at 1.10 yuan a kg from 30 grain reserves. The peasants ignored them. During that golden period, Jilin Province only purchased 1.06 billion kg of corn at the negotiated price; that made up 14.4 percent of the corn on the peasants' hands. After the spring holidays, the negotiated-price grain market became increasingly deserted; no out-of-town customers came; a few peddlers drove down their procurement prices, down to as low as 0.80 yuan a kg. Some peasants who needed to sell in a hurry sold their lot to the peddlers; they ended up with no grain and no money. When the weather warmed up, the grain could no longer be kept at home; many peasants begged the depots to take their grain; they were even willing to accept IOU's.

This year's grain-selling problem was due mainly to the peasants' reluctance to sell earlier and their desperate rush to sell later on. We should educate the peasants on market laws and how to accurately grasp market information; they must not blindly follow the market, even less should they harbor unrealistic expectations and keep wanting higher and higher prices. We should help the peasants to review their experience in this round of the grain-selling problem and let them learn from personal experience a lesson in socialist market economics.

Two, the peasants also made a mistake about the market economy: they paid too little attention to quality.

In recent years, things have been abnormal in the villages. In the past, the peasants worried about the grain rotting, and they always wrapped the corn cobs in their husks and strung them up, or they let the corn cobs dry on the rooftops. Most peasants' houses had an upper storey, and sometimes more than one storey, to store corn. Today, this is rare. More often, they pile corn on the ground and use ground moisture to add to the corn's water content to add weight. Some peasants have even found a "smart" way to sprinkle water on the corn at specific times with water of specific temperature, so that they can fetch more money. Worse yet, some people even mix dirt in the grain to add weight. They admit that they would go to any length to make money, claiming they have a head for the commodity economy.

I think it is imperative to lead the peasants away from this "erroneous zone" and teach them the following principle: Commodity exchange is exchange of equal value; you get what you pay for, and the goods must be worth the money. People must have credibility. They should not sell their radishes without washing off the dirt, even less should they add dirt to the radishes before selling them. Bad reputation only hurts the peasants themselves.

Three, the peasants have no concept of cost. Whenever they talk about increasing income, many complain about the low grain price first and about the high cost of means of production next; few say anything about lowering production cost. Today, grain prices in China are approaching or even surpassing prices overseas. We can no longer afford to put our hopes of increasing the peasants' income on raising grain prices. Instead, we should find ways to reduce production cost. To reduce cost, on the one hand, the state must stabilize or lower the cost of fertilizers, pesticides, ground cover, farm machinery, and other agricultural means of production. On the other hand, the peasants must be more conscious about reducing production cost. Reducing production cost means scientific farming; it means high yield and high efficiency. They must use seeds properly and apply fertilizers properly, and in particular, the use of farm

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manure should be vigorously advocated. Jilin's Yitong County practices the use of farm manure exclusively; the soil is fertile and yield is good. Reducing spoilage when harvesting and storing grain is also important. Piling grains on the ground to dry is a bad practice; they spoil easily that way, and they are often contaminated by farm animals. Wastefulness naturally adds to the cost.

Four, we must strengthen leadership in negotiated-price grain sales. Today, leaders at all levels are paying close attention to agricultural production, but they show little leadership in the peasants' negotiated-price sales. Actually, negotiated-price grain sales outside of the fixed-quota sales is very important. Government and grain department at all levels should focus on negotiated-price grain sales the same way they focus on spring sowing and fixed-quota procurement and storage. They should tell the peasants about grain market situations at home and abroad, up north and down south, in the province, and locally. In addition, we should improve the peasants' scientific grain storage methods. This time, the state managed to buy up the surplus grain, but the grain depots have limited capacity to stove or air-dry the grains, and there will be some spoilage. Regardless of where the spoilage actually occurs, it is unnecessary loss. The basic cause is the corn's high water-content. We must guide the peasants to sell dry grain. If every family, every household, lowers the water content of their corn, we can guarantee safety and high prices.

Lastly, we should educate the peasants on being more understanding of the state. This year, tension ran high between the masses and the cadres in some localities in Jilin because the peasants were unable to sell their grain and the township and village cadres still tried to collect money from them.

We should realize that the state has worked hard to protect the peasants' interests. Take Jilin Province for example. In order to procure and store corn, the province spent 2.2 billion yuan during the Seventh and Eighth Five-Year Plan periods to build new stoving facilities and increase procurement and storage points to expand storage capacity, and of that amount, 800 million yuan came from the state, and 1.4 billion yuan were loans from the grain department. Some localities also worked hard on converting corn to other uses. They built grain feed-processing, starch-producing, and alcohol-producing plants, as well as glucose-producing factories and so on. They tried to use the corn locally, promote agricultural development, and solve the peasants' grain-selling problem. But the state has limited financial capacity, and the peasants should try to understand the state's predicament.

Solving Jilin's grain-selling problem has taught us many things. It has made us understand better Chairman Mao's teaching that "the solution to serious problems lie in educating the peasants." In particular, the peasants are still at the learning stage when it comes to the socialist market economy; they need to be educated to become more aware of the meaning of commodities and the market and to gradually adjust to the market economy and fit into that environment.

*PRC: More Vigorous Epidemic Disease Control Urged

96CE0264B Beijing NONGMIN RIBAO in Chinese 12 Apr 96 p 3

[Article entitled "Domestic Animal and Fowl Disease Control Must Be Strengthened."]

[FBIS Translated Text] Some domestic animal and fowl epidemic diseases, once under control, have made a comeback in some localities. They have produced adverse effects on livestock production and human health. The pertinent departments should pay close attention to the following matters:

1. Some epidemic disease control organs at below county-level exist in name only; they have no staff. In recent years, as a part of reorganization and the result of delegation of the "three powers," many provinces and municipalities have delegated the management of village and township animal and fowl epidemic disease control stations to the village governments, but there is no corresponding management mechanism. This has created the following problems: a) Enterprises are replacing the government. For example, most county-level livestock veterinarian promotion organs have been abolished or turned into private companies. On the one hand, the government wants them to assume administrative duties, and on the other hand, the government wants them to make money to take care of the cadres' living expenses, and in fact their energy is spent on conducting business. b) Assets are being appropriated for other use; the collective economy is bankrupt. Upon being turned over to the county government, the Heishui Township station in Jianping County, Liaoning Province, had 17,000 yuan of its money transferred by the county, and another 165,000 yuan's worth of real estate was sold to the grain stores, leaving the staff "homeless" and forcing to cease all work. c) Some village and township government leaders appoint workers arbitrarily. The village government placed five temporary workers who knew nothing about the business in the Sanzhubian Village station in Nanxian County, Shandong; the station had more workers than work. Currently, after being handed down, many of the village disease control stations are left without anybody in charge, leaving

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disease control work unattended. A study made in the spring of 1994 showed that, in Heilongjiang's Hailun County alone, one-third of the original 24 village stations were closed. Today, the animal and fowl disease control team is unstable; most of the talented workers are gone. In particular, the grass-roots disease control workers have to endure harsh living and work conditions. In January of this year, disease control personnel in most of Heilongjiang's counties received only 60-80 percent pay. Many college and polytechnic school graduates assigned to the village and township stations would "jump ship" soon after they arrived. Jimo City, Shandong, assigned four college graduates to the village stations in 1989; they have all left.

2. Animal and fowl disease control operations are grossly underfunded. China's livestock production has been growing at a rate of 9 percent a year in recent years; annual production exceeds 300 billion yuan; more than 8 billion animals and fowls are being raised. Take domestic fowls for example. There were 3.2 billion fowls in stock in 1993 and 3.7 billion in 1994. In recent years, the cost of animal and fowl disease control has been rising, but funding not only has not kept up but has actually decreased. For example, the livestock department of Zhongmou County, Henan, has lost all funding since 1993. A survey of the 32 county livestock veterinarian stations showed reduced funding year after year: Funding was cut by 11.29 percent in 1992, another 13.18 percent in 1993, and 32.2 percent in 1994; 14 autonomous prefectural and county stations received no money at all. Some stations have no money to buy cars, pay tolls, or buy gasoline; they cannot deliver the vaccines and medications to the villages in a timely fashion.

Although the state has increased special funding for the control of a handful of major diseases, it is far from adequate.

3. Highway disease inspection and disinfection stations are abolished, leaving the doors open for the spread of contagious diseases. Since the 1950's and 1960's, the nation's animal and fowl disease control stations have met scientific needs and complied with international regulations to set up disease inspection and disinfection stations within national and provincial boundaries and along the main thoroughfares to check the shipments of animals and fowls, and when an epidemic was discovered, the area would be closed off and disinfected; it worked well to control the long-distance spread of diseases. In recent years, to deal with the "three chaos" on the highway, the localities followed regulations to abolish many roadside inspection stations, and in many areas, the disease control departments also abolished some inspection and disinfection stations too. Today, commodity circulation volume is huge; many animals and fowls are shipped everywhere; along the frontier, cross-marketing and cross-rearing of animals between two countries have made the spread of diseases even more frequent and widespread. Yunnan's Dehung Autonomous Prefecture shares more than 500 km of borders with Burma. Burma is plagued by animal and fowl diseases, which often spread to Yunnan. Inner Mongolia once had 133 disease infestation points; 131 were caused by diseased piglets, and two by contaminated pork, brought in from the outside.

Pertinent personnel urged the functional departments to pay closer attention to animal and fowl disease control. It is essential that animal and fowl disease control organs be stabilized during reform; special funds for the prevention of major diseases must be subsidized in full to promote the healthy development of economic constructions.

*PRC: CASS Researcher Warns of Misconceptions About Cotton Supply

96CE0264C Beijing NONGMIN RIBAO in Chinese 10 Apr 96 p 3

[Article by Yang Zhihua (2799 1807 5478): "An Analysis of China's Cotton Production and Policy Suggestions Based On the Supply-Demand Situation—Interviewing Xu Fengxian (1776 6646 6343), Research Associate, CASS's Economics Institute.]

[FBIS Translated Text] Xu Fengyan was born in Wuxi County, Jiangsu Province, in 1939. He was graduated from Nanjing's Agricultural University, with a degree in Agricultural Economics, in 1964. Currently, he is a research associate (professor) at CASS's [Chinese Academy of Social Sciences] Economics Institute. He specializes in macroeconomic theories, rural economics, and social development issues. He has published 8 text books (including joint publications) and more than 300 articles in renowned journals at home and abroad. His major economic works include: "Comprehensive Reforms at the County-Level and Coordinated Socioeconomic Developments," "Socioeconomic Survey of 100 Chinese Counties and Cities—the Lingxian County Volume,) *Accession to GATT: China's Township Enterprises Gear Up for the World, Insist on the Socialist Direction; Stabilize and Perfect Agriculture's Double-Deck Management System, China's Agricultural Development Mission and Policies Prior to the Year 2030, Thoughts on the Restructuring of the County-Level Financial System, Regional Economic Developmental Gaps and Future Policy Measure Choices, China's Agricultural Product Price Reform and Agricultural Development, Policy Suggestions on How To End the Cotton-*

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Textile Industry's Predicament, and *The Socialist Market Economy and New Developments in the Southern Jiangsu Model*. His ideas are highly valued and widely adopted by the party's and the government's decision-making departments. He has received numerous awards for his fine research work. As a special commendation for his outstanding contributions to social science research, he was awarded the State Council's special stipend in 1992; he was awarded the State Press and Publication Administration's "Major Contribution Toward the Completion of the Chinese Encyclopedia" in 1993 and so on.

[Yang] As the saying goes, "Melons in Pure Brightness [5th solar term] and flowers in Grain Rain [6th solar term]." This year's cotton planting season will soon be upon us. It was learned that last year, cotton procurement made slow progress in some localities and was halted temporarily in some cotton producing regions. This was in sharp contrast to previous years when people from the marketing regions fought all the way to the production areas for the new cotton that hit the market. The cotton-growers are upset, and this is bound to affect their enthusiasm for planting cotton this year. Therefore, some people are wondering if there is an overabundance of cotton in China and if some cotton producing regions are again thinking about cutting the cotton planting area this year. What is your opinion? Do we really have an overabundance of cotton?

[Xu] We do not have an overabundance of cotton. Supply is still very tight. If we look at the past 18 years since reform and opening up, China's cotton production has truly outpaced supply only in two years—in 1984-1985 and 1991-1992. For all the remaining years, cotton supply was tight. In the five years between 1985 and 1989, cotton production faltered, showing negative growth averaging 7.88 percent a year. We had to import massive amounts of cotton in order to satisfy the textile mills' needs. In the 1990's, the cotton supply situation eased at first, but things went down hill again in 1993. That year, we produced 74.80 million dan of cotton, but actual procurement was only 53 million dan. In 1994, we produced 85 million dan of cotton, and actual procurement was 67 million dan, and as a result, the state had to import more than 17 million dan to satisfy the cotton industry's needs. Today, China's textile industry has around 42 million spindles, and it needs more than 100 million dan of cotton each year. Although cotton production exceeded 90 million dan in 1995, we still fall short by about 10 million dan; cotton supply is still tight.

Earlier, some localities had trouble moving their cotton; procurement appeared slow. This was only temporary, and it happened only in some areas. Our study showed the phenomenon to be caused by the following problems:

1. The serious lack of warehouse facilities was the major cause of the sluggish procurement and transfer of cotton. Since the mid-1980's, China's cotton storage capacity has averaged around 80 million dan: the cotton procurement stations provided approximately 20 percent of the capacity, the supply and marketing cooperatives' cotton and linen companies accounted for 60 percent, and the cotton and textile mills' depots accounted for 20 percent. In the 1990's, in the wake of the development of the market economy, and in order to earn more and to maximize profit, the localities' cotton management units converted their cotton warehouses to other uses, greatly reducing their cotton storage capacity. Currently, the capacity is down to about 60-70 million dan, and when the brisk cotton procurement season arrives, procurement must be restricted at times.

2. Cotton price is stable and the peasants are eager to sell; supply-demand conflict is eased temporarily. At a given time, the cotton procurement stations and cotton and linen companies' warehouses have a limited capacity and may be filled to the brim. The cotton and textile enterprises' warehouses are limited in capacity and can hold only two to three month's supply of cotton they plan to use, and learning from experience a few years ago when there was a serious shortage of cotton, they no longer make panic purchases recklessly. As a result, the procurement stations in some localities may halt procurement, and enterprises may suspend transfer and sales of cotton, temporarily.

3. We imported more than 70 million dan of foreign cotton in 1995, mostly in the second half of the year, to remedy the coastal cotton and textile enterprises' shortages. But toward the end of last year, some of the foreign cotton had not been used up, which slowed the transfer of new cotton this year. Meanwhile, procuring cotton beyond their storage capacity no doubt will add to the cotton and linen companies' debts and increase their cost, which is a burden they are reluctant to bear. Furthermore, since 1993, when the coastal textile cities readjusted their industrial structure and product mix, the state has adopted measures to cut production and limit the number of spindles while vigorously developing synthetic fiber textile industry, and to some extent, this has eased the tight cotton supply.

In addition, a handful of areas indeed have diverted their cotton procurement funds to other uses, which has affected the normal utilization of cotton procurement funds, and in rare cases, IOUs have been issued in cotton procurement. In some areas, after the cotton was moved out of the production areas, people did not receive

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prompt payment, and the cotton management units' fund circulation stalled for a long time, which put a heavy interest burden on them, and they were unable to procure more cotton. All these necessarily affected the cotton-growers' enthusiasm for planting and selling cotton.

[Yang] It seems the glut of cotton is but a superficial, temporary, and regional phenomenon; shortage is the essential, long-term, and overall problem. In your opinion, what level of cotton production should this country try to maintain in order to balance supply and demand?

[Xu] Overall, I think the country's cotton production should be stabilized at around 100 million dan, with the planting area stabilized at more than 90 million mu, in order to satisfy the needs of the development of the textile industry and the country's 1.2 billion population. History lessons should be carefully assimilated. Just when cotton production is taking a turn for the better and supply-demand conflict is easing, we must not mistake that for excess production to slacken leadership and pay less attention to production or blindly reduce the planting area. We should know that once cotton production drops, it will take years to recover.

[Yang] In your opinion, what are the causes of the repeated ups and downs in China's cotton production?

[Xu] Here, we should first analyze the course of China's cotton production: 1978-1984 marked a period of rapid increase in production; annual production grew at a rate of 19.87 percent. 1985-1989 marked a period of production slump, with annual production showing negative growth of 7.88 percent. 1990-1995 marked a period of ups and downs, with annual growth averaging around 5 percent. Clearly, the rise and fall of cotton production basically coincided with the course of agricultural production development, and it is fair to say that agricultural and cotton development was basically dictated by the state's policies. Meanwhile, within the agricultural sector, the price ratio between grain and cotton is unreasonable; the price ratio between cotton and processed cotton goods is also unreasonable; the prices of means of production are soaring, input of cotton production funds is inadequate, agricultural technical personnel is underpaid, and IOU's are often issued in cotton procurement: These are all factors constraining the stability and development of cotton production in China. If and when these problems are solved, the cotton supply-demand conflict will be eased and cotton production will develop; otherwise, the opposite will be true.

[Yang] In your opinion, how do we solve the cotton production problems to generate a benign production-circulation-processing-consumption cycle?

[Xu] Both for today and in the long run, I think we should begin with the following:

1. The state's relevant departments should carefully check the nation's cotton circulation and processing channels' storage capacities. Currently, we should have total capacity, counting all levels, to store 100 million dan of cotton. Estimates based on surveys indicate that the nation currently requires an additional 20-30 million dan of storage capacity, which will cost about 4.5 billion yuan to build. Local cotton depots already converted to other use should be promptly converted back for cotton use.

2. We should continue to strengthen macro regulation and control of the cotton procurement, marketing, transfer, and transport links and increase the state's cotton reserve. To accomplish that, the supply and marketing cooperatives in the cotton producing areas should work hard to link up with the cotton marketing regions and the cotton and textile enterprises. They should organize the transfer and sales of cotton to the textile mills according to plan. No one should make excuses to refuse to procure or halt the procurement of cotton from the cotton-growers, so that the cotton-growers will have nothing to worry about.

3. The use of cotton procurement funds must abide by the principle of special funds earmarked for special use; they must not be diverted to other use. Violators will be prosecuted, and the penalty will depend on the seriousness of the case. This is to guarantee the smooth process of cotton procurement.

4. We should do a better job using science and technology to revitalize cotton production. Currently, China's cotton procurement and sale prices have reached or even exceeded international price levels; there is little room for further adjustments; otherwise, the cotton and textile enterprises' ability to pay will be taxed. Therefore, we must use science and technology to revitalize cotton production; we must work on developing improved varieties and using scientific management to raise the per unit area yield. At the same time, we should offer a whole series of services and guarantee the size of the cotton planting area, so as to further promote the sustained and steady development of cotton production.

*PRC: Anhui Reports Wheat Area for 1996

96CE0335E Beijing JINGJI CANKAO BAO in Chinese 2 Jun 96 p 1

[FBIS Summary] This year the wheat area in Anhui Province will be about 30.5 million mu.

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***PRC: Yunnan Begins Planting of Autumn Grain Area**

96CE0335C Chongqing XINAN JINGJI RIBAO in Chinese 3 Jun 96 p 1

[FBIS Summary] This year the planned autumn grain area in Yunnan Province is 37.5 million mu.

***PRC: Hubei Reports Summer Grain Output, Area**

96CE0335D Wuhan HUBEI RIBAO in Chinese 28 May 96 p 1

[FBIS Summary] Summer grain output in Hubei Province may reach 4.625 billion kilograms, an increase of 150 million kilograms over 1995, and oil crop output may reach 1.3 million tons. The early rice area increased by 830,000 mu over 1995, and the early hybrid [rice] area increased by 600,000 mu. The spring corn area reached 5.2 million mu, an increase of 480,000 mu over 1995. The planned late rice area is 12.5 million mu, an increase of 1 million mu over 1995.

***PRC: Jiangsu Reports Summer Grain Area**

96CE0335F Nanjing XINHUA RIBAO in Chinese 28 May 96 p 1

[FBIS Summary] This year the summer grain area in Jiangsu Province reached 40 million mu, an increase of 380,000 mu over 1995; of which the high yield wheat area was 33.1 million mu, an increase of 840,000 mu over 1995. The rapeseed area decreased by 350,000 mu from 1995, but gross output may reach 1 million tons.

***PRC: Shandong Reports Wheat Area, Estimates Output**

96CE0335G Jinan DAZHONG RIBAO in Chinese 28 May 96 p 1

[FBIS Summary] At present the wheat area in Shandong Province is 61 million mu, and summer grain output may exceed 20 billion kilograms.

***PRC: Anhui Reports Rapeseed Procurement Plan, Price**

96CE0335H Hefei ANHUI RIBAO in Chinese 25 May 96 p 1

[FBIS Summary] This year the Anhui provincial government has issued a procurement plan of 500,000 tons. The procurement price will follow the market. All localities will set the price themselves, but the price may not be lower than 110 yuan per 50 kilograms.

***PRC: Tibet Reports Crop Area**

96CE0335I Chongqing XINAN JINGJI RIBAO in Chinese 10 Jun 96 p 1

[FBIS Summary] At present the crop area in Tibet has reached 3,314,000 mu, an increase of 64,000 mu over the original plan.

***PRC: Jiangsu Farmer Income Increases in First Quarter**

96CE0335J Nanjing XINHUA RIBAO in Chinese 24 May 96 p 1

[FBIS Summary] In the first quarter of 1996, the per capita cash income of farmers in Jiangsu Province was 1079 yuan, an increase of 762.1 yuan or 41.6 percent over the same period in 1995. In the first quarter per capita farmer income derived from labor was 572.6 yuan, a 45.6 percent increase, and per capita income derived from household operations was 426.1 yuan, a 36 percent increase.

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Taiwan: Editorial Urges Taiwan Response to Jiang Zemin Proposal

HK0207083396 Hong Kong WEN WEI PO in Chinese 2 Jul 96 p B2

[Editorial: "Taiwan Authorities Should Take Concrete Actions"]

[PTS Translated Text for FBIS] In an interview with local reporters in Spain last week, Chinese State President Jiang Zemin spoke on issues concerning cross-strait negotiations. Jiang Zemin said: Holding cross-strait talks on peaceful reunification has been our consistent proposal. As a first step, the two sides may hold talks on "officially ending the state of hostility across the strait under the principle of one China" and reach an agreement. On this basis, both sides will jointly undertake obligations, safeguard Chinese sovereignty and territorial integrity, and draw up a plan for the future development of cross-strait relations. This is the mainland's latest proposal again offered to leaders of the Taiwan authorities on opening cross-strait talks.

This proposal put forward by Jiang Zemin had already been set out on the eve of the Spring Festival last year in his eight-point important proposal on the Taiwan issue, which had evoked strong repercussions from Chinese people at home and abroad. All Chinese people from the two sides of the strait and from other regions hoped that the Taiwan authorities would give a prompt response to Jiang Zemin's proposal and would hold cross-strait consultations with the mainland as soon as possible.

Despite the rapid development of economic and cultural exchanges between the people of the two sides, the state of hostility across the strait has not officially ended. This is unfavorable to the further development of cross-strait relations. The Taiwan authorities should give a positive response to Beijing's proposal if they "always bear the people's wishes in mind." However, the latter development of the cross-strait situation is obvious to all. Li Teng-hui was slow in giving a reply to Jiang Zemin's speech, and his response was both negative and passive. Li Teng-hui said that a meeting between leaders of the two sides should take place on an "international occasion," which in fact is the rejection of the mainland's goodwill because Taipei knows very well that cross-strait relations is an internal issue of China and that this is the mainland's principle in handling cross-strait ties. If leaders of the two sides have to meet on an international occasion, this will be tantamount to a tacit approval of taking the cross-strait issue as an international question. Hence, Li Teng-hui "does what one knows is impossible," but he dares not flagrantly refuse cross- strait talks under the pressure from the people of the two sides. After that, Li Teng-hui seriously worsened cross-strait relations by making a visit to the United States. To safeguard national sovereignty and territorial integrity, last summer the mainland began to launch a struggle against Taiwan independence and separatism to curb Taiwan independence elements and separatists, thus creating conditions for the improvement of cross-strait ties.

Following the end of the "general elections," in his "inauguration address," Li Teng-hui spoke on cross-strait talks, for which he still added prerequisites. This attitude on the part of Li Teng-hui triggered a good deal of criticism from the media at home and abroad. As everyone can clearly see, the Taiwan authorities are passive on the cross-strait issue. They try to stall it if possible, or propose conditions unacceptable to the mainland. As far as Taiwan is concerned, its stalling capital is dwindling. Because of economic exchanges between the people of the two sides in recent years, the economy of Taiwan as an isolated island has to a certain extent taken the mainland as its hinterland to speed up its development. Li Teng-hui has also openly admitted this.

With just over three years to go before the end of this century, the Chinese Government will resume the exercise of sovereignty over Hong Kong and Macao one after the other. Given that both Hong Kong and Macao have close economic exchanges with Taiwan, when Hong Kong and Macao become PRC special administrative regions, Taiwan's contacts with them cannot completely bypass the mainland. Still less should Taiwan evade the question of reunification if it wants to promote its development in the world in the 21st century. It will not get anywhere if it clings to Taiwan independence, and only by upholding reunification will it have a glorious future.

The Taiwan authorities should seriously study Jiang Zemin's eight-point proposal and his remarks made on this occasion on cross- strait talks. By holding themselves responsible to history and the people and with genuine boldness, they should take concrete action to respond positively. If they do so, blessed indeed are the two sides of the strait and the Chinese nation.

Taiwan: Officials Comment on PRC Response to Li's Inaugural Speech

OW2906000596 Taipei LIEN-HO PAO in Chinese 24 Jun 96 p 2

[FBIS Translated Text] On 22 June, the Chinese Communists' State Council Taiwan Affairs Office responded to President Li Teng-hui's inaugural speech. Speaking

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of the response, Kao Kung-lien, Mainland Affairs Council [MAC] vice chairman, said: The "one-China" principle should not become a precondition for cross-strait consultations. As cross-strait exchanges go, the most important task of the moment is to sit down and talk. In assessing the response, Kao Kung-lien said that it was necessary to further analyze and understand its implications. Chiao Jen-ho, Straits Exchange Foundation [SEF] vice chairman, maintained that the Chinese Communists' current attitude toward resuming consultations and solving problems is positive.

In reiterating the speech by Chiang Tse-min [Jiang Zemin], CPC general secretary, Chen Yun-lin [Chen Yunlin], spokesman for the Chinese Communists' State Council Taiwan Affairs Office, said on 22 June: All issues can be discussed under the premise of "one China." In light of this response, Kao Kung-lien said on 23 June: The "one- China" principle should not become a precondition for cross-strait consultations, because the SEF and the Association for Relations Across the Taiwan Strait [ARATS] have reached a consensus on interpreting this concept on their own. We hope cross-strait consultations will be held on the basis of this consensus. As long as the two sides observe the consensus and honor the agreement on Ku [Chen-fu]-Wang [Daohan] talks, favorable cross-strait interaction will naturally follow.

On the issue of holding "talks on ending the state of hostility across the Taiwan Strait," Kao Kung-lien said: The Chinese Communists suspended cross-strait consultations last June. We have taken a step toward resuming the consultations by sending a letter to the mainland through the SEF at the end of April expressing our sincerity and goodwill about resuming cross-strait consultations.

Kao Kung-lien maintained: The two side of the Taiwan Strait must observe three principles in their dealings: 1. Mutual respect; 2. sensible peace; and 3) equality and pragmatism. To promote cross-strait relations, the most important task of the moment is for the two sides to sit down and talk so as to solve various issues in dispute through the resumption of consultations. Holding cross-strait consultations on the basis of the consensus reached by the SEF and ARATS on "interpreting the 'one-China' concept on their own" will help advance cross-strait relations.

Chiao Jen-ho maintained: If the mainland authorities are sincere about advancing cross-strait relations and pursuing national reunification, they should not put forward hollow or unrealistic policies or principles. We should take a realistic and mutually respectful attitude and advance cross-strait relations on the basis of recognizing the status quo.

Chiao Jen-ho said: The mainland has set some preconditions for holding "talks on ending the state of hostility across the Taiwan Strait." These preconditions, as unilaterally interpreted by the mainland, are unacceptable to us. If, on the issue of "one China," the mainland returns to the consensus that "we will not abandon our pursuit of 'one China' while interpreting the concept on our own," the MAC or another competent agency will surely give more positive consideration to the possibility of holding these talks.

In assessing the Chinese Communists' State Council Taiwan Affairs Office's response, Chiao Jen-ho said: The Chinese Communists' current attitude toward resuming consultations and solving problems is positive. He, nevertheless, pointed out: Although the mainland has repeatedly expressed its hope to resume consultations, most of the results of consultations over the past three years have come to naught. Although the mainland has repeatedly expressed its hope to exchange views with people from all walks of life in Taiwan, it has become increasingly difficult for SEF personnel to go to the mainland. Regarding the mainland authorities' statements and actions, our people should also "judge them by their deeds, not just by their words." We should not expect too much from them.

Taiwan: MAC Chairman on PRC Response to Li's Inaugural Speech

OW2906051496 Taipei CHUNG-KUO SHIH-PAO in Chinese 25 Jun 96 p 9

[FBIS Translated Text] Yesterday, Mainland Affairs Council [MAC] Chairman Chang Ching-yu said there was some goodwill expressed in the Chinese Communists' recent response to President Li's inaugural address; however, we still need to observe whether they will take concrete actions. Chang Ching-yu called on both sides "not to stand in the clouds but to walk on the ground and not to shout propaganda at each other any longer" in the face of cross-strait relations.

Chang Ching-yu pointed out that although there was a touch of repeating the same old tunes in the Chinese Communists' remarks, their response did convey that cross-strait tension has eased. Chang Ching-yu emphasized that we have never rejected political negotiations across the strait. In addition, we took the initiative to suggest that the state of hostility across the strait be ended and that a peace agreement be signed and we are ready at all times to hold talks with the other side of the strait. However, "all of these should be carried out

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based on a tacit understanding reached between the two sides."

The Chinese Communists have repeatedly emphasized that "one China" is a prerequisite for both sides to hold dialogues. Chang Ching-yu said emphatically that "one China, two equal entities" is our stand on "one China," adding "one China" never means the so- called "People's Republic of China."

Chang Ching-yu also called on the Chinese Communists to face cross-strait relations in a practical manner, saying the best way is to re-open the channel of negotiation between the Straits Exchange Foundation [SEF] and the Association for Relations Across the Taiwan Strait [ARATS], so as to handle technical issues. Chang Ching-yu pointed out that in a letter addressed to the ARATS, SEF Chairman Ku Chen-fu asked for resuming cross-strait talks and set forward the proposals of establishing offshore shipping center and special economic zones for direct trade exchange across the strait; however, Mainland China has not yet responded.

Chang Ching-yu made the aforementioned remarks at a joint meeting of the Legislative Yuan's inter[illegible] affairs, foreign affairs, and judicial committees yesterday.

Taiwan: Majority Favors Cross-Strait Cultural, Educational Exchange

OW0207023496 Taipei LIEN-HO PAO in Chinese 25 Jun 96 p 9

[Article by reporter Ho Ming-kuo (0149 2494 0948)]

[FBIS Translated Text] Taipei — Promoting cross-strait cultural and educational exchange has been a priority of the government's mainland policy. According to a poll conducted by the Mainland Affairs Council [MAC], the majority of people in Taiwan supported the government's current policy and favored extending invitation to vice ministers and higher ranking officials of the Chinese communist government's cultural and educational departments to visit Taiwan as well as removing controls over the sales of books and magazines from each side.

The MAC requested the China Credit Information Service to conduct a poll by telephone among people over 20 years old about their views on cultural and educational exchange between the two sides. A total of 1,067 valid samples were tabulated from the poll, which was conducted from 11 through 25 May. The main points of the poll are:

— As many as 87.5 percent of the respondents agreed or fully agreed that cross-strait cultural and educational exchange can promote cross-strait understanding.

— As many as 74.6 percent of the respondents favored or fully favored the idea that an invitation be extended to vice ministers and higher-ranking officials of the Chinese communist government's cultural and educational departments to visit Taiwan.

— As many as 79.9 percent of the respondents favored or fully favored that cross-strait cultural and educational exchange activities should be promoted through separating politics from cultural and educational affairs.

— Under the Chinese communist authorities verbal attacks and military threats, 44.1 percent of the respondents thought that the current state of exchange should be maintained, 30.8 stood for broader exchange, 12.7 stood for partial suspension of exchange, and 6.3 percent stood for a complete suspension of exchange.

— Despite the fact that only the flag and song of the Chinese Taipei Olympic Games Association can be flown and played at international sports meets taking place in Taiwan, 67.3 percent of the respondents still fully favored or favored that the country should make every effort to win sponsorships of international sports meets.

— In the event that, for political reasons, the Chinese communist authorities change the names of our groups during cross- strait exchange, 54 percent of the respondents fully disfavored or disfavored that our side should continue to take part in the exchange, but 38.7 percent still fully favored or favored that our side should continue to take part in the exchange.

Taiwan: Restrictions Eased on Visits by Mainland Businessmen

OW0207034396 Taipei LIEN-HO PAO in Chinese 25 Jun 96 p 9

[Article by reporter He Ming-kuo (0149 2494 0948)]

[FBIS Translated Text] Taipei — The Mainland Affairs Council [MAC] yesterday adopted the amended Measures for Approving People on the Mainland To Come to Taiwan for Economic and Trade Activities. According to the amendment, in addition to coming to Taiwan for visits and meetings, mainland businessmen also can come to Taiwan to receive training from now on; a mainland business concern may also send personnel to Taiwan to inspect the merchandise it has purchased from Taiwan, provided that the purchase exceeds $200,000 each time.

Based on the principle of removing control step by step and on the need to develop cross-strait economic relations and trade, as well as to demonstrate our side's good will, the Ministry of Economic Affairs

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and MAC decided to amend the measures, which were promulgated for implementation in April last year.

The key amendments include:

— Business supervisors to be approved to come to Taiwan will include deputy directors and deputy managers, as well as factory directors and managers, who had been approved before. Technical personnel to be approved to come to Taiwan will include senior technicians, as well as directors, deputy directors, and deputy managers, who had been approved before.

— The threshold for businesses hiring personnel from the mainland has been lowered. A business may do so when its real income in Taiwan reaches NT$10 million [new Taiwan dollars], instead of NT$30 million as before; or when its investment on the mainland reaches $300,000, instead of $500,000 as before.

— Mainland personnel may now come to Taiwan to receive training, in addition to taking part in economic and trade activities and attending meetings. The length of stay for visits and meetings may not exceed one month, and the length of stay for receiving training may not exceed three months.

— Senior personnel of private business concerns at and above the provincial and municipal levels on the mainland may come to Taiwan for visits at the invitation of provincial and municipal business concerns as well as mainland affairs organizations in the Taiwan region.

— A mainland business may ask to send personnel to Taiwan to inspect the merchandise it purchases in Taiwan, provided that the purchase is at least $200,000 each time, and that the Taiwan corporation from which it buys has real capital of at least NT$10 million.

Taiwan: PRC Officials in Hong Kong Allowed To Visit After 1997

OW2906111696 (Internet) Taiwan Central News Agency WWW in English 0914 GMT 29 Jun 96

[By Flor Wang]

[FBIS Transcribed Text] Taipei, June 29 (CNA) — Mainland Chinese officials will be allowed to visit Taiwan in their capacity as officials of the special administration of Hong Kong after 1997, a ranking government official said on Saturday.

Minister without portfolio Yeh Chin-feng, formerly vice chairwoman of the Mainland Affairs Council, made the remarks while answering questions from the press at a seminar on the impact of post-1997 Hong Kong.

As the British colony will return to Beijing's rule in 1997, Yeh said mainland officials will be permitted to visit Taiwan as Hong Kong officials under the Republic of China [ROC] government's laws and regulations.

However, according to the laws, Hong Kong will not be considered an entity on an equal footing with Taiwan in the future, she noted, saying that the British colony will be a special administration area.

The Legislative Yuan is currently screening a statute governing relations between the people of Taiwan and the Hong Kong and Macao areas that will provide a legal basis for direct Taiwan-Hong Kong exchanges after 1997.

As to whether the Straits Exchange Foundation should set up a branch in the British colony to handle Taiwan-Hong Kong affairs after 1997, Yeh said Taiwan's direct contacts with Hong Kong beyond 1997 will be allowed in compliance with the statute.

She added that the government will consider setting up an intermediary body to deal with Taiwan-Hong Kong affairs if circumstances do not permit direct contacts between the two sides by then.

Meanwhile, a China observer pointed out that the biggest problem facing Taiwan and Hong Kong after 1997 will be the visa issue, as the Chung Hwa Travel Service, the ROC's de facto representative office in the territory, will be stripped of the right to issue Taiwan visas for Hong Kong residents.

Li Yi, publisher of the Hong Kong-based "Nineties" magazine, who also took part in the seminar, said that according to "the seven- point proposal" made by Mainland China's Vice Premier Qian Qichen in 1995, the Chung Hwa Travel Service will only be allowed to conduct travel business after 1997.

Qian, who also heads the preparatory committee of the Hong Kong special administration, said that Taiwan's organizations will not be permitted to engage in activities not suited to their status in Hong Kong after 1997.

Under such circumstances, Taiwan and Mainland China must find a solution to the visa issue, as Qian's seven-point proposal clearly points out that civilian exchanges between Taiwan and Hong Kong must continue after 1997, Li said.

Whether it is made through bilateral negotiations or through the existing communication channels between Taipei's Straits Exchange Foundation and Mainland China's Association for Relations Across the Taiwan Strait, Li said a solution to the visa issue is a significant matter for Hong Kong, as Taiwan travelers make at least 1.8 million visits to the British colony each year, contributing a great deal to Hong Kong's economy.

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Taiwan: Cross-Strait Trade Up Slightly in First 4 Months of 1996

OW2906111896 (Internet) Taiwan Central News Agency WWW in English 0807 GMT 29 Jun 96

[By Danielle Yang]

[FBIS Transcribed Text] Taipei, June 29 (CNA) — Two-way trade between Taiwan and mainland China in the first four months of this year totaled US$6.8 billion, up 1.8 percent from the same period last year, according to statistics released Saturday [29 June] by the Board of Foreign Trade (BOFT).

Taiwan exported US$5.83 billion worth of goods to the mainland from January to April, up 2.6 percent, while imports decreased 2.8 percent to total US$973 billion, the statistics showed.

Cross-strait trade of US$6.8 billion accounted for 9.5 percent of Taiwan's total foreign trade. Taiwan enjoyed a US$4.86 billion trade surplus with the mainland.

Two-way trade between Taiwan and Mainland China via Hong Kong reached US$3.64 billion between January and April, an annual growth of 3.3 percent, according to the statistics.

Taiwan's exports to the mainland through the British colony totaled US$3.15 billion, up 3.2 percent, while imports grew 3.9 percent to US$491 million. The trade balance was US$2.66 billion in Taiwan's favor.

In April alone, cross-strait trade topped US$1.97 billion, a decline of one percent from April 1995, the statistics showed.

April exports to Mainland China totaled US$1.7 billion, down 0.1 percent from the same month last year, and imports reached US$260 million, off an annual 6.2 percent.

Taiwan's US$1.44 billion trade surplus for the month represented a 1.1 percent increase.

Taiwan's foreign trade with Mainland China through Hong Kong grew 10.9 percent in April to reach US$1 billion. The US$770 surplus in Taiwan's favor posted a growth of 10.7 percent from the year before, the statistics showed.

***Taiwan: 'Double National Identity' Troubles Lee Teng-hui**

96CM0319A Taipei HSIN HSIN WEN [THE JOURNALIST] in Chinese No 472a, 30 Mar 96 pp 36-39

[Article by Hsieh Wen-jung (6200 6855 1369) and Kuo Hung-chih (6753 3112 1347): "Lee Teng-hui's 'Double National Identity' Is Undermining His Concept on Sovereignty"

[FBIS Translated Excerpt] [passage omitted] Lee Teng-hui once said that "I was born in 1923. The 20th Century will soon end. I have suffered my entire life." "We people in the 70's could not sleep well at night in the past. I do not want my children and grandchildren to suffer like this," he added. After all, what kind of historical experiences had his "entire miserable life" furnished this "leader who spans two centuries?", and in what way had this vision of these historical experiences helped him to perceive the new century? Also, in which direction is he leading Taiwan?

Lee Teng-hui ended his 23 years of Japanese education after Japan's defeat, Taiwan's retrocession, and his repatriation after attending Kyoto Imperial University. When he was attending a class on moral culture at the Tamshui Public School, one of his classmates asked Principal Tsunemi Matsuda: "Why should we study Japanese instead of Taiwanese?" The Japanese principal asked Lee Teng-hui to answer this question, but Lee Teng-hui kept quiet.

Lee Teng-hui said that he considered himself a Japanese before he was 20 years of age. In general the concept of double national identity existed in the minds of Taiwanese of Lee Teng-hui's age group. Only their fate remained different. Someone becomes the president, while others become political prisoners, or even face a firing squad. Some people have to find a personal identity and convictions for life, and are still unable to decide which candidate they should elect as the president on 23 March 1996.

Lee Teng-hui was born in 1923, when the Japanese colonial regime was still relatively stable at that time. His father Lee Chin-lung was a policeman specializing in crime, a "guard dog of Japanese Imperialism," as described by Wu Cho-liu. Lee Chin-lung had a Japanese name "Tatsuo Iwasato." Lee Teng-hui also registered himself under a Japanese name "Masao Iwasato." His grandfather Lee Tsai- sheng ran a grocery store. When Lee Teng-hui was a third grader in school, his father Lee Chin-lung resigned from the police department, and worked at the butchery counter in his father's grocery store.

Although Lee Teng-hui's family was not as rich as the parents of his wife, Tseng Wen-hui, it still could afford to support Lee Teng-hui in school. He often asked his father to give him some pocket money, and he paid four yuan to buy a complete set of the World Encyclopedia. He subscribed to the monthly magazine "YOUTH CLUB" in Japanese, and watched movies like "Vagabond" by Charlie Chaplin in the early

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days. During his youth, Lee Teng-hui benefited from the Japanese colonial education system which had led Taiwan towards modernization. After graduating from the Tamshui Public School (Junior High School), he tried four times before he was finally admitted into the Taipei High School. During that period, he loved Japanese fencing. He said that he originally loved to play baseball, but he injured his shoulder when he learned how to throw grenades in a military training class. Thus, he switched to Japanese fencing.

In the early 1940's, Lee Teng-hui spent two years at Taipei High School. He did not graduate from that school. However, he later appeared in the Kyoto Imperial University. How did Lee Teng-hui go to Japan around the end of World War II? What was he doing during the three years he was in Japan? This was the most mysterious period in his whole life. When he was interviewed by Japanese writer Yusuke Fukada, he mentioned some episodes in his life. He said that when he stayed in the Nichi-Doku Dormitory, food was a scarce commodity during the final stage of the war. He often did not receive food parcels sent to him from Taiwan. The woman who was in charge of the dormitory often had to look for food and shared it with him. At that time, he started to study agricultural economics.

After returning to Taiwan, Lee Teng-hui entered Taiwan University to study agricultural economics. He was involved in an underground organization of the Communist Party in Taiwan. Did he join the Communist Party, and did he ever betray his comrades? All this became the focus of the media as he was attacked by his opponent Lin Yang-kang during the presidential election. Also, where was Lee Teng-hui during the 28 February Incident? This question was repeatedly brought up. On 28 February this year, he took the initiative to say that "I myself owe people an apology on this." What actually happened? Lu Yuan, Lee's classmate at the Tamkang Middle School, returned to Taiwan from Japan to teach chemistry at the Tamkang Middle School. During the 28 February Incident, he went out to rescue Principal Chen Neng-tung who was placed under arrest. Lu was shot on the street, as he could not understand what a mainland soldier said in Mandarin, and later died of the wound.

Between the end of the19th Century and the end of the 20th Century, socialism had affected young intellectuals to a certain extent, no matter whether they later became leftists or rightists. For more than 100 years, important cultural and intellectual achievements were more and less related with Marxism, no matter whether people further developed or criticized Marxism after conducting self examinations.

Talking about his past experiences, Lee Teng-hui said that what he had in his mind first was social unfairness. During that period, socialism was the best ideological foundation for young intellectuals. It was actually unfair to question Lee Teng-hui who was an intellectual in that era on whether he was a member of the Communist Party or not. By the same token, it is also a betrayal of his ideal which he cherished when he was young, if he actually was a Communist Party member, but did not want to admit it.

Lee Teng-hui did not elaborate how he had associated with the leftist thinking. Nor did he say how he had left the leftist ideas behind. However, he asked the question "What did my enthusiasm get when I was young?" He asked this question when he was talking about Marxism and Fascism which held sway in the 20th Century. (One of Lee Teng-hui's German reading materials during his high school days was Hitler's *Mein Kampf*.)

One of the questions which intellectuals in Taiwan had always in their minds at that time was the issue of social justice and national identity. Lee Teng-hui who received a Japanese education as a person under the imperial rule never had any lessons in Chinese. He came back to Taiwan from Japan only after the war ended. Where did he learn Mandarin, and since when did he identify himself with the Republic of China? Most of the elite of his generation dealt with this issue.

The book *On Double National Identity* translated and published by Chen Ying-chen was a typical example. The book was originally published by the Iwanami Book Store, describing a tragedy of Yeh Sheng-chi, a Taiwan intellectual. Yeh Sheng-chi and Lee Teng- hui were of the same age. Yeh also loved to read the "YOUTH CLUB" magazine when he was young. Passing the entrance examination, he entered the Tainan No. 1 Middle School which admitted Japanese students only. He studied hard to become an outstanding Japanese student. After graduating from the school in Tainan, he went to Japan to study in a senior middle school where he met Chinese students. He began to wonder whether he was a Japanese or a Chinese. Once he even joined the rightist "Yudayaken", an anti-Jewish Nazi organization. On the eve of Japan's defeat in war, he was studying medicine at the Tokyo Imperial University amidst rubble. After Japan's defeat in the war, he registered himself with the Association of Fellow Taiwanese as a citizen of the Republic of China. He was ready to return to Taiwan to build a new nation based on the "Three Principles of the People."

However, when he came ashore at the Keelung Harbor in April 1946, Yeh Sheng-chi became doubtful. In his diary, he wrote: "The society is full of wastes, passivity,

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corruption, adultery, alcoholism and herds of pigs." He began to feel disappointed about the Republic of China.

Yeh Sheng-chi then studied medicine at Taiwan University. His graduation thesis was "Nietzsche's Research in Psychological Medicine." At that time, Lee Teng-hui was also studying at the Taiwan University. Yeh Sheng-chi was considerably active in the student government. He knew many leftist students, and joined the Communist Party. He published journals, showed French and German movies to the general public, and invited students to meet at the Bolero Restaurant to discuss how to visit the mainland. Just like Chung Hao-tung who played the role of the principal of the Keelung Middle School in the film "Good Men, Good Women", he had realized the problem of class in China. Soon after that, Hsu Chiang and Kuo Hsiu-tsung who also had studied medicine at Taiwan University, as well as,Chung Hao-tung and Yeh Sheng-chi were executed by shooting, one after another.

Young people such as Lee Teng-hui and Yeh Sheng-chi who came back from Japan and suffered from the serious problem of double national identity found difficulties which changed their minds. The book *On Double National Identity* written on the basis of Yeh Sheng-chi's diary is a good reference for us. Where is the book *On Double National Identity* for Lee Teng-hui? How can the people in Taiwan understand Lee Teng-hui's past?

Lee Teng-hui said before that :"Under the different regimes of the Japanese occupation, Taiwan's retrocession, and the present era, I, as a Taiwanese feel deeply grieved." "I believe that the Taiwanese are much to be pitied. They cannot fight even for their own lives. It was so during the Japanese occupation. The same thing happened after Taiwan's retrocession. My feeling is strong on this," he added.

This kind of historical experience has affected Lee Teng-hui's views on sovereignty. He pointed out that "the term 'China' is quite vague" and that "Taiwan must belong to the Taiwanese" and that "sovereignty is an ambiguous term." During the election, he had repeatedly showed his attempt to overturn the traditional concept on sovereignty. Obviously this will be his basic concept on foreign affairs and on cross-straits relations in the next four years.

On the one hand, this 74-year-old man's idea, formed on the basis of his historical experience, is to seek a cross-straits sovereignty on an equal footing under the structure of a "civilized China." On the other hand, the conclusion of the Cold War provides him with a good opportunity to bring Taiwan "out of Egypt." Since the beginning of the 1990's, Lee Teng-hui has repeatedly pointed out that the traditional concept on sovereignty must change in order to establish a new world order.

Lee Teng-hui said that the Taiwanese are to be pitied after Taiwan's retrocession. They still cannot fight for their own life. Just like most of the professional intellectuals, Lee Teng-hui who worked under the rule of the Chiang Regime was a skilled bureaucrat with little right to speak. Lee Teng-hui remained suppressed, and religion gave him much comfort. Becoming a government official under the rule of an "outside regime," he had demonstrated his tendency towards compromise. To use his own words, "I am constantly thinking how to restrain myself." Before he assumed presidency and when the inner-party struggle was not so evident in the late 1980's, Lee Teng-hui had never said anything about "the grief of the Taiwanese." This is a kind of suppression, and it reflects a kind of compromise.

With a strong determination, Lee Teng-hui won the inner-party struggle and the presidential election. His own idea is that he is finally able to do what he wants—a new China, a community doctrine, a peaceful interaction between the straits, an Asian-Pacific Operational Center, an educational reform, and a pure and fresh political mode of life. Can Lee Teng-hui's checks which he wrote several years ago be redeemed?

Lee Teng-hui has a good chance. He has no excuse to further delay his reform program. He has succeeded in "purifying the party." He also has a good foundation for a democratic election. There are also a group of outstanding Kuomintang middle-aged skilled bureaucrats or even persons without any party affiliation such as Lee Yuan-tseh to carry out educational reform or make more contributions for him.

It seems like Lee Teng-hui no longer needs to restrain himself any more. However, his historical experiences, either good or bad, will no doubt determine his future. Also, in order to win victories in political struggle, he has to make more and more compromises. For example, he now tolerates the underworld financial influence in politics more generously, and he is going further and further away from his ideal of seeking social justice, an ideal which he cherished when he was young. For instance, the reform of the constitutional government has turned the national assembly into a stage full of clowns who are good at nothing but flattery.

"I believe that Taiwanese are to be pitied. They cannot even fight for their own lives. It was so during Japanese occupation. The same thing happened after Taiwan's retrocession. My feeling is strong on this." Taiwan's grievous history of 74 years has created Taiwan's first popularly elected president, Lee Teng-hui. He seeks to emerge from his grief. This 74-year-old Kuomintang

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corruption, adultery, alcoholism and herds of pigs." He began to feel disappointed about the Republic of China.

Yeh Sheng-chi then studied medicine at Taiwan University. His graduation thesis was "Nietzsche's Research in Psychological Medicine." At that time, Lee Teng-hui was also studying at the Taiwan University. Yeh Sheng-chi was considerably active in the student government. He knew many leftist students, and joined the Communist Party. He published journals, showed French and German movies to the general public, and invited students to meet at the Bolero Restaurant to discuss how to visit the mainland. Just like Chung Hao-tung who played the role of the principal of the Keelung Middle School in the film "Good Men, Good Women", he had realized the problem of class in China. Soon after that, Hsu Chiang and Kuo Hsiu-tsung who also had studied medicine at Taiwan University, as well as,Chung Hao-tung and Yeh Sheng-chi were executed by shooting, one after another.

Young people such as Lee Teng-hui and Yeh Sheng-chi who came back from Japan and suffered from the serious problem of double national identity found difficulties which changed their minds. The book *On Double National Identity* written on the basis of Yeh Sheng-chi's diary is a good reference for us. Where is the book *On Double National Identity* for Lee Teng-hui? How can the people in Taiwan understand Lee Teng-hui's past?

Lee Teng-hui said before that :"Under the different regimes of the Japanese occupation, Taiwan s retrocession, and the present era, I, as a Taiwanese feel deeply grieved." "I believe that the Taiwanese are much to be pitied. They cannot fight even for their own lives. It was so during the Japanese occupation. The same thing happened after Taiwan's retrocession. My feeling is strong on this," he added.

This kind of historical experience has affected Lee Teng-hui's views on sovereignty. He pointed out that "the term 'China' is quite vague" and that "Taiwan must belong to the Taiwanese" and that "sovereignty is an ambiguous term." During the election, he had repeatedly showed his attempt to overturn the traditional concept on sovereignty. Obviously this will be his basic concept on foreign affairs and on cross-straits relations in the next four years.

On the one hand, this 74-year-old man's idea, formed on the basis of his historical experience, is to seek a cross-straits sovereignty on an equal footing under the structure of a "civilized China." On the other hand, the conclusion of the Cold War provides him with a good opportunity to bring Taiwan "out of Egypt." Since the beginning of the 1990's, Lee Teng-hui has repeatedly pointed out that the traditional concept on sovereignty must change in order to establish a new world order.

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chairman in Taiwan has seen the prospect of the future , but can he achieve his goal? Or would he once again become submerged in "the grief of the Taiwanese."

Taiwan: Foreign Affairs Minister, South African Minister Meet 2 Jul

OW0207113496 (Internet) Taiwan Central News Agency WWW in English 0858 GMT 2 Jul 96

[By Flor Wang]

[FBIS Transcribed Text] Taipei, July 1 (CNA) — ROC Foreign Affairs Minister Chang Hsiao-yen told visiting South African Foreign Minister Alfred Nzo Monday that the Republic of China [ROC] treasures its relations with South Africa and will not interfere in Pretoria's ties with other countries.

Chang made the remarks during a one-hour meeting with Nzo, in which the two discussed and exchanged opinions on bilateral ties and several major issues of mutual concern.

Nzo, leader of a seven-member delegation, arrived in Taipei Sunday for a three-day fact-finding visit. The Taipei visit, part of Pretoria's assessment to weigh its ties with Taipei and Beijing, came following a similar mainland trip by Nzo in March.

In addition to expressing appreciation for Nzo's visit, Chang told his South African counterpart that developing relations with African countries has always been one of the top priorities on the agenda of his ministry. The ROC attaches great importance to its ties with South Africa not only because it is an important country in Africa, but also the two nations share the same ideal in human rights and moral principles, he pointed out.

Pointing to Liberia, Guinea-Bissau, the Central African Republic, Niger, Burkina Faso, The Gambia and Senegal, Chang said those countries have successively set up diplomatic relations with the ROC in recent years because they found that maintaining formal links with the ROC is in their national interests.

Chang told Nzo that the ROC has never interfered in other countries' ties with a third party and has never asked them to change the state of their relations with Mainland China. He said an independent state should not accept Beijing's dictation on the "one China" issue.

There was only "one China" before 1949 and there will be only "one China" after eventual unification, Chang said. China now is divided and Beijing's claim that it is the sole legitimate government of all China is not true, he added.

On the post-1997 Hong Kong issue, Chang said he expects South Africa's relations with the British colony and Mainland China to remain normal beyond 1997, as Beijing needs continued economic prosperity and Pretoria's support for joining the World Trade Organization.

Chang told Nzo that South Africa need not worry its post-1997 trade ties with Hong Kong and promised to fulfill all cooperative projects between the two countries.

Two-way trade between the ROC and South Africa hit US$1.8 billion in 1995, with South Africa enjoying a surplus of US $174 million. In contrast, South Africa posted a trade deficit with Mainland China last year as bilateral trade surged to US $1.33 billion.

For his part, Nzo expressed satisfaction with the meeting and said it is very helpful to further cement Taipei-Pretoria ties.

Taiwan: Joint Economic Conference With Philippines To Open 9 Jul

OW0207114596 (Internet) Taiwan Central News Agency WWW in English 0858 GMT 2 Jul 96

[By Sun Ting-wu and Danielle Yang]

[FBIS Transcribed Text] Manila, July 2 (CNA) — The fifth ROC- Philippine Economic Cooperation Conference will open in Manila on July 9 with ranking government officials from both countries participating.

ROC Minister of Economic Affairs Wang Chih-kang and Philippine acting Trade and Industry Secretary Cesar B. Bautista will jointly officiate at the conference.

Wang will visit the Subic Bay on July 10 to understand the progress of a Taiwan-developed industrial park.

Meanwhile, the 11th joint meeting of the Chinese-Philippine and Philippine-Chinese Business Councils will be held in Manila on July 11 with Jeffrey Koo, president of the ROC-Philippine Economic Council, presiding over the annual meeting.

Private entrepreneurs from Taiwan will first visit the Clark Special Economic Zone on July 9 to inspect the investment climate there. Former ROC Minister of Economic Affairs P. K. Chiang will speak at the annual joint meeting.

Taiwan: DPRK Trade Representative Visits Foreign Ministry

OW0207023296 Taipei CHUNG-KUO SHIH-PAO in Chinese 25 Jun 96 p 4

[Report by reporter Chiang Ching-ling (3068 7234 3781)]

[FBIS Translated Text] Taipei — Yi Song-nok, president of the "North Korean Association for Promoting

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International Trade," paid a courtesy call to our country's Ministry of Foreign Affairs at 0830 this morning [as published], and had a talk with Vice Foreign Minister Chen Hsi-fan. Leng Juo-shui, spokesman for the Ministry of Foreign Affairs, stressed that Yi Song-nok's visit was strictly a courtesy call. Personages of relevant departments used such words as "positive, courteous, not optimistic" to describe the prospects for the development of relations between our country and North Korea.

Taiwan: First Mirage Fighter Squadron Formed Mid-1997

OW0207040196 Taipei CHUNG-KUO SHIH-PAO in Chinese 25 Jun 96 p 4

[By reporter Lu Chao-lung (0712 2507 7172)]

[FBIS Translated Text] Taipei — An Air Force officer disclosed that parts of Mirage fighter jets which the Republic of China [ROC] purchased from France are arriving in Taiwan by air and the sea. The senior officer added that the first Mirage squadron will be formed in mid-1997.

According to military sources, the first shipment of precision parts of Mirage jet fighters arrived at the Air Force's Hsinchu Air Base by Evergreen Airlines a few days ago. They indicated that the first batch of Mirage jet fighters will be shipped to Taiwan by ship, but that shipment had not yet started.

Taiwan: New Group Ends State Telecommunications Operations Monopoly

OW0107131996 (Internet) Taiwan Central News Agency WWW in English 1301 GMT 1 Jul 96

[By Benjamin Yeh]

[FBIS Transcribed Text] Taipei, July 1 (CNA) — The newly founded Chunghwa Telecommunications Corp. (CTC) officially took over the business arms of the Directorate General of Telecommunications (DGT) on Monday, ringing out an era in which the DGT was criticized for "acting as both referee and player at the same time."

"Today is a milestone in the telecommunications history of the Republic of China [ROC]," Minister Tsai Chao-yang of Transportation and Communications said in the ceremony marking a fundamental change in Taiwan's telecommunications industry.

The DGT from Monday will only be authorized to formulate Taiwan's future telecommunications policies, to build an environment of fair competition, to ensure fair access to the use of networks, and to facilitate telecommunications services in Taiwan. The DGT's business operations will be handed over to the CTC, a spin-off company.

Tsai hailed the achievements made by the DGT over the past more than 100 years, but stressed that under the enormous pressure of liberalization and internationalization, the time in which the DGT served the combined functions of telecommunications regulator and operator is now over.

"Chunghwa Telecom, with its long experience and well-trained personnel, will hopefully help to upgrade Taiwan's telecommunications services," Tsai said.

Chunghwa Telecom Chairman Steven Chen asked his staff to do away completely with the mentality of "Ta Kuo Fan," or a large number of people sharing equally in a pot of rice regardless of their contribution, a Chinese phrase that translates loosely to inefficiency.

"If we succeed, we expect not only to sustain growth, but to become a world-class enterprise....However, if we don't do a good job, I'm afraid we will face many difficulties right from the outset," Chen warned.

Initially, the state-run CTC will set up seven business divisions, including regional operations, long- term telecommunications, added-value networking, and investment.

Capitalized at NT$96.4 billion (US$3.5 billion) and employing a staff of some 35,000, the CTC is projected to generate NT$164.7 billion in first-year revenues.

The CTC will be privatized after five years under a bill passed by the Legislative Yuan in January.

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Hong Kong

Hong Kong: Report on Lu Ping Interview on Reversion

OW0207061696 Beijing XINHUA Domestic Service in Chinese 0934 GMT 30 Jun 96

[Report by XINHUA reporters Duanmu Laidi (4551 2606 0171 1229) and Feng Xiuju (7458 4423 5468) on interview with Lu Ping, date and place not given: "The Historical Inevitability — Interview With Lu Ping, Director of the Hong Kong and Macao Affairs Office of the State Council"]

[FBIS Translated Text] In just one more year, the cherished wish of the Chinese people for several generations will be realized and Hong Kong, the "brilliant pearl of the East," will return to the embrace of the motherland. Lu Ping, director of the Hong Kong and Macao Affairs Office of the State Council, who has taken part in policymaking for the return of Hong Kong from the beginning to the present, was full of emotion when he was interviewed by reporters. He sincerely hoped that the 6 million compatriots in Hong Kong would join hands and work together to contribute to promoting the smooth transition of power and long-term stability of Hong Kong.

He recalled Hong Kong's humiliating history over the past 100 years, the course of Sino-British talks, and the trials and hardships during the transitional period. He was full of confidence in the future of Hong Kong.

The Issue of Sovereignty Has No Room for Discussion

Lu Ping said: The Chinese Government has never recognized the three unequal treaties and always held that they were the products of an aggressive war launched by Britain against China. After the founding of New China, the Chinese Government repeatedly stated that the three unequal treaties were forced on China by Britain. Huang Hua, former Chinese permanent representative to the United Nations, publicly stated: China does not recognize the three unequal treaties and does not recognize that Hong Kong is a British colony. China will solve the Hong Kong issue at proper time and in an appropriate way. Lu Ping said: The United Nations and the world public opinion supported China's standpoint on the issue.

Reporters asked: Why didn't New China consider recovering Hong Kong at the time it was founded? Lu Ping answered: At that time, New China was just established and there were many domestic matters to deal with. Internationally, some Western countries headed by the United States also imposed an economic blockade on China. Under those circumstances, China needed a peaceful environment to restore its economic order and heal war wounds. At that time, Premier Zhou Enlai put forward a policy of "long-term arrangements and making full use" of Hong Kong, which meant not taking back Hong Kong temporarily, while making full use of Hong Kong's advantages to serve China's economic construction.

Lu Ping recalled the past events and said: In 1978, when Deng Xiaoping met with Hong Kong Governor Maclehose, he pointed out that, as a special issue, the Hong Kong question would be solved in a special way. He asked foreign investors to set their minds at ease. However, during the talks between China and Britain, the British side started to stress the "validity of the three unequal treaties." Later, faced with strong opposition from the Chinese side, the British side changed its method and put forward the so-called "trading sovereignty for ruling power" plan in an attempt to continue its rule in Hong Kong after 1997. In 1982, Deng Xiaoping clearly pointed out that there was no room for discussion on the issue of sovereignty over Hong Kong, when he met with visiting British Prime Minister Thatcher. He said that China would recover Hong Kong in 1997, and that, if the British side continued to adhere to the erroneous stand, China would unilaterally announce its policy decision on solving the Hong Kong issue in 1984. In the face of China's firm stand, the British side had to reconcile, and the two sides eventually signed the Sino-British Joint Communique in December 1984 after 22 rounds of arduous talks between the two sides.

"One Country, Two Systems" Tallies With the Actual Situation

When reporters asked under what situation the Chinese Government put forward the policy of "one country, two systems," Lu Ping said: Comrade Deng Xiaoping put forward the policy of "one country, two systems" in consideration of Hong Kong's history and reality in order to solve the Hong Kong issue. "One country" means that Hong Kong is an inalienable part of the Chinese territory, while "two systems" means that Hong Kong can be allowed to retain its capitalist system on this small tract of land, on the premise that socialism is the main body of China. After its return to the motherland, Hong Kong must continue to maintain its stability and prosperity and so there should be as few waves as possible. To achieve this goal, implementation of the policy of "one country, two systems" is the best way. This is also based on the actual situation in China.

Lu Ping said: "Our reform and opening up, as well as the building of 'four modernizations,' need Hong Kong as a window and bridge through which we can have

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access to markets in Western countries and introduce their funds, advanced technology, and management expertise. Meanwhile foreigners can also enter the Chinese markets through Hong Kong."

Lu Ping said: Using the method of "one country, two systems" to solve the Hong Kong issue has also set an example on how to solve international issues in a peaceful way. As Deng Xiaoping said, the world has many contradictions and disputes that cannot be solved by fighting each other, instead they should be settled peacefully.

The successful realization of the policy of "one country, two systems," the implementation of the Hong Kong Basic Law in an earnest manner, and the continuation of stability and prosperity in Hong Kong after 1 July next year will play a leading and exemplary role in solving the Taiwan issue. Therefore, after the signing of the Joint Communique, the Chinese side immediately started to draft the Basic Law for the special administrative region. During the drafting of the Basic Law, we extensively solicited opinions from residents in Hong Kong and formulated the policy of the central authorities for Hong Kong in the form of a law after repeated revisions. Formulation of the Basic Law has taken four years and eight months and it has been welcomed by our compatriots in Hong Kong. Later, the Chinese side did a lot of work to ensure the smooth transition of power, appointed four groups of advisers for Hong Kong affairs, and set up the Preliminary Work Committee and the Preparatory Committee. All these have laid down a firm foundation for the establishment of the Hong Kong Special Administrative Region [SAR].

There Is No Question of Jurisdiction Between the Mainland and Hong Kong

Answering reporters' questions on the relations between the central and local provincial governments and the Hong Kong SAR after "1997," Lu Ping said: According to the policy of the central authorities and stipulations of the Hong Kong Basic Law, the central people's government will be responsible for the foreign affairs and Defense of the Hong Kong SAR in the future. The People's Liberation Army will station troops in Hong Kong, and the Ministry of Foreign Affairs will set up an organization in Hong Kong. Other daily affairs will all be handled by Hong Kong people themselves. Hong Kong will enjoy executive, legislative and independent judicial power, including that of final appeal. This is just what is meant by "Hong Kong people governing Hong Kong" and a high degree of autonomy.

Lu Ping said: The Basic Law also stipulates that no departments of the central people's government, and no provinces, autonomous region or municipality may interfere in affairs which the Hong Kong SAR itself administers. Therefore, there is no question of jurisdiction when handling affairs with the Hong Kong SAR by various departments of the central people's government and local provincial governments. For example, according to the stipulations of the Basic Law, Hong Kong will have independent finances, and it will use its financial revenues exclusively for its own purposes, instead of handing them over to the central people's government. The state will not levy taxes in the Hong Kong SAR.

Touching on issues of whether it will be easier for people from the mainland to travel to Hong Kong for business cooperation after "1997," Lu Ping said that, after the return of Hong Kong to the motherland, Hong Kong will be a SAR of China. Residents of the mainland must receive approval if they want to go to Hong Kong for business or official work. Even people like us must also have a certificate when going to Hong Kong.

Lu Ping said: In view of the fact that Hong Kong has area of only about 1,000 square kilometers, if large numbers of mainland people crowd into Hong Kong, the pressure on Hong Kong would be too great and so there must be some control. As Deng Xiaoping said, it may have even stricter control than now on this issue.

When asked whether it will be more convenient to travel abroad after Hong Kong residents get new passports, Lu Ping said: Now some people in Hong Kong do not have passports; they just have certificates of identity, with which they travel abroad. After 1997, the Hong Kong Special Administrative Region [SAR] will grant SAR passports to all the Chinese citizens among permanent residents in Hong Kong, which are to be issued only to this portion of the population. We are not all qualified to obtain the passport.

He said: Considering that Hong Kong is an international financial and trade center, to provide convenience to the Hong Kong compatriots, we are negotiating with some countries on visa-free access for Hong Kong SAR passport holders through diplomatic channels.

We Are Pressed for Time and Faced With a Heavy Task

On the time table of the formation of the Provisional Legislative Council of the Hong Kong SAR and of the selection of the chief executive, Lu Ping said: The chief executive of the future Hong Kong SAR will be elected by a Selection Committee, composed of 400 permanent Hong Kong residents. The Selection Committee Panel is now studying methods of choosing the members of the Selection Committee, based on the opinions sought from people in various circles. The method will continue

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to be studied in the panel's session next month, then be submitted to the Preparatory Committee's fourth plenary session to be held in Beijing in August for discussion and adoption.

According to his estimate, the Selection Committee is expected to be formed in October and the first chief executive and Provisional Legislative Council of the Hong Kong SAR are expected to be elected and formed by the end of this year, and then the chief executive will nominate the principal SAR officials. Therefore, the Provisional Legislative Council, the chief executive, and the future SAR governing body are all expected to be chosen by the end of this year.

Lu Ping said: From the end of this year to 1 July next year when Hong Kong's political power is officially transferred, the chief executive of the Hong Kong SAR must understand the situation and live his part. We hope the British side will cooperate with the Preparatory Committee and familiarize the future SAR governing body with the situation. After establishment of the Provisional Legislative Council, it will study the absolutely necessary laws that cannot be made by the current Legislative Council before 30 June 1997 so that those laws can be brought into effect on 1 July next year.

Referring to the issue of Sino-British relations, Lu Ping said: The Chinese Government's general and specific policies [fang zhen zheng ce 2455 6859 2398 4595] toward Hong Kong have never changed. But, unfortunately, the British side has relapses [fan fu 0646 1788] on this issue. In the past several years, the British side has created many troubles [ma fan 7802 3565] on the Hong Kong issue. However, we always hope the British side will continue to enhance cooperation with the Chinese side according to the principles of the Sino-British Joint Declaration in the coming year. He said: There are still many problems between the two sides to settle through negotiation, and the Sino-British Liaison Group is now speeding up its work.

When asked whether the Preparatory Committee will still play its role after 1 July 1997, Lu Ping said: The Preparatory Committee should also help in the task of preparing for establishment of the first Legislative Council of the Hong Kong SAR, according to the decision made by the National People's Congress on 4 April 1990. Because the Provisional Legislative Council whose establishment is now under preparation can operate only one year to 30 June 1998. According the stipulations of the Basic Law, the Preparatory Committee should formulate the specific method of the formation of the first Legislative Council, which should be established through elections. After this task is completed, the historical obligation of the Preparatory Committee will then be fulfilled.

Looking to the future, Lu Ping said: All the members of the Hong Kong and Macao Affairs Office and I all have a sense of urgency. It is now only one year until the return of Hong Kong to the motherland, which can no longer be counted as if days, but instead should be counted as if hours. We must work hard against time and make full and sound preparations for the establishment of the Hong Kong SAR. He said: This is a very arduous and huge project. "Time and tide wait for no man. Seize the day, seize the hour."

Hong Kong: Petition Bid Fails

HK0207060496 Hong Kong SOUTH CHINA MORNING POST in English 2 Jul 96 p 1

[By Louis Won on board Fight KA009]

[PTS Transcribed Text for FBIS] The first ominous warning came at 10.40 am, just as the plane was about to touch down. An announcement told us to expect to remain on board for an extra 10 minutes because of "special security arrangements".

But in reality the message was for the eight members of the United Front Against the Provisional Legislature. They were about to discover the "consequences" of going to Beijing to hand in a petition against the body.

Before the announcement, they had been excited that their mission might yet succeed. Laughing and joking, there was little sign of the tension to come.

The anticipated first hurdle, that Dragonair would not let them fly because of Chinese opposition, had not materialised. Before boarding, an airline official simply showed them a letter from Xinhua reiterating that they would have to "face the consequences" if they persisted in their trip.

But now they faced the toughest hurdle actually getting off the plane. Suddenly, the good humour had gone. Smiling faces became tense. The group gathered round, discussed their plans should the inevitable happen and then buckled up for landing.

Some believed the plane would be cleared of all but their delegation before security officials came aboard and ordered them back to Hong Kong. Others said the officials would board immediately and take them away.

But it soon became clear they might as well still be in Hong Kong for all the chance they had of setting foot on Chinese soil.

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As the plane taxied to a halt, it was surrounded by rifle-toting security officials. About 15 more were quickly on board, checking passenger names against a list.

Always polite, but deadly serious in their intent, the officials went about their business. Those members targeted were told to take a seat in the first-class cabin, joining Fung Chi-wood who had only been able to get on the flight by paying for a luxury seat.

Twenty-five journalists on the plane or awaiting its arrival were also detained. Some were interrogated, told to write statements of repentance, had cassettes or video tapes seized or notebooks torn.

I was among 16 taken off the plane. Accused of failing to co- operate with security officers, we were told not do it again. We said we understood and were allowed to go.

Hong Kong: XINHUA Explains Barring 8 Hong Kong Group Members

OW0207112896 Beijing XINHUA Hong Kong Service in Chinese 1127 GMT 1 Jul 96

[FBIS Translated Text] Beijing, 1 Jul (XINHUA) — In accordance with Chinese regulations on entry and exit management, frontier inspection personnel on duty at Beijing's Capital International Airport this morning adopted measures to bar the entry of Zheng Jiafu and seven other members of the so-called Coalition To Oppose the Provisional Legislature, who were trying to force their way through immigration and ordered them to return by the same airplane on which they had arrived. In addition, Chen Xiaolei, a TUNG FANG JIH PAO reporter who arrived on the same airplane ostensibly to cover the coalition's activities, was also denied entry in accordance with the relevant provisions.

Zheng Jiafu, Zeng Jiancheng, Ren Shanning, Xie Yongling, Liang Yaozhong, Lin Sencheng, Luo Zhaohui, and Feng Zhihuo arrived by plane at Beijing's Capital International Airport at 1050 today. On the night of 29 June, the XINHUA News Agency's Hong Kong branch advised Zheng Jiafu and the others of a notice issued by the State Council's public security organ denying them entry and holding them responsible for the consequences if they ignored the notice. When Zheng Jiafu and the others arrived by plane at Beijing's Capital International Airport on the morning of 1 July, airport frontier inspection personnel on duty confiscated their travel documents in accordance with Paragraph 7, Article 8, Chapter 2 of the Regulations of the People's Republic of China on Entry and Exit Management and ordered them to return by the same airplane on which they had arrived. During the process, the duty personnel enforced the law in a civil manner and treated the individuals in question politely, thus preventing the coalition members from forcing their way in, in accordance with the law while ensuring the smooth entry of other passengers.

Hong Kong: XINHUA Official Defends PRC's Barring Entry of Petitioners

HK0207065596 Hong Kong TA KUNG PAO in Chinese 2 Jul 96 p a12

[Report: "Zhang Junsheng Criticizes Intruders for 'Putting on a Show,' and Committing an Offense Knowingly, and Stresses That They Must Be Held Responsible for All the Consequences"]

[PTS Translated Text for FBIS] Zhang Junsheng, vice director of the Hong Kong Branch of XINHUA News Agency, criticized the actions of the "United Front Against the Provisional Legislature" for "putting on a show" and making trouble. He stressed: We informed them in advance that the Public Security Ministry would not allow them to enter. But they persisted in doing so. So, they must be held responsible for all the consequences.

Yesterday morning, on several public occasions, Zhang Junsheng answered reporters' questions on members of the "United Front Against the Provisional Legislature" going to Beijing. He reiterated that the public security department of each and every country has the right to make arrangements for the security of the country, and the security of the capital in particular. The Chinese Public Security Ministry told them not to go to Beijing, otherwise they would be held responsible for the consequences. But they insisted on doing so. This is absolutely not allowed by law.

He added: We informed them in advance. In addition, if people want to pass through our border, they must hold valid documents, and their documents must be examined. This is known to all.

He reiterated: We know the opinions of the "United Front Against the Provisional Legislature." They have put on a show several times. They oppose the provisional legislature, and a few days ago they held a demonstration in front of our XINHUA branch. We knew what they wanted a long time ago. Besides, their views are wrong. They insist on their wrong views, and refuse to listen to our explanation and advice. They intend to impose their views on others. Does this not mean that they are making trouble?

Some reporters asked: Since the members of the "United Front Against the Provisional Legislature" were entering China without guns, why were they refused entry? Zhang Junsheng stated: Don't believe that our country's

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safety will only be affected by people with guns. They presented petitions, and held demonstrations in front of our agency. This was their own affair. But they are not allowed to do so in Beijing. When one enters Beijing and the mainland, one must abide by the law of the mainland, and maintain the stability of the country. They intended to present petitions, and issued many advance notices of this. They brought many reporters to the mainland. This would attract many people's attention. Our capital will never allow them to do this. Therefore, our public security ministry told them not to go, but they insisted on intruding across our border. This is absolutely not permitted. Zhang Junsheng pointed out: It is a good thing to express views in a democratic and free way. They are allowed to do so. However, when all of us know their views, is it still necessary to express them? Is it reasonable to impose their wrong views on the government? We have repeatedly talked about the reasons for establishing the provisional legislature. Why did they not oppose Chris Patten's "three violations" constitutional reform package and his arrangements which undermined the "through train"? The arrangement of the "through train" has been undermined by Chris Patten, and a legislature is needed when the government of the special administrative region is established. The Preparatory Working Committee and Preparatory Committee racked their brains to make up for the loss. We were eventually compelled to make a decision on establishing the provisional legislature. Have we not explained this matter clearly?

Zhang stated: This issue is clear. It does not involve any freedom of speech, or freedom to express views. They have done enough to express their views, and said what they want to say. They have done everything, such as burning and treading on placards, and breaking through police cordons. Hong Kong residents know all this. There are already sufficient channels for expressing views. This is not a question of freedom of speech.

Zhang Junsheng also asked reporters present to report his remarks fully and accurately, so that Hong Kong residents could distinguish truth from falsehood. He said that many reporters described demonstrations in detail, but touched on his remarks lightly. This was unfair to Hong Kong residents because they could not distinguish right and wrong from reading their reports.

Hong Kong: Activists: PRC Has Blacklist of Pro-Democracy Backers

HK0207060296 Hong Kong SOUTH CHINA MORNING POST in English 2 Jul 96 p 1

[By Catherine Ng, Sauw Yim and No Kwai-Yan]

[PTS Transcribed Text for FBIS] Eight protesters detained in Beijing by armed police claimed last night that China had compiled a blacklist of pro-democracy supporters.

The group, including five Legislative Councillors, flew to Beijing to hand a 60,000-name petition opposing the establishment of the provisional legislature to senior Chinese officials.

But soon after the plane touched down, 15 uniformed and plainclothes security officials were on board checking all passengers against a lengthy list of names.

The group, members of the United Front Against the Provisional Legislature, were questioned for two hours and had their home visit permits confiscated before being forced to return to Hong Kong.

On their arrival at Kai Tak last night, where they were given a heroic welcome by supporters, the group accused Beijing of compiling a blacklist of local activists.

A spokesman for the group, Andrew Cheng Kar-foo, said: "The gongan [public security officers] were holding a list, which we regard as a blacklist, to identify us.

"It was in three A4-size pages long, double sided, and had an estimated 200 names on it. All were pro-democracy camp people."

He said they saw the names of Democrat legislators Lau Chinshek and Cheung Man-kwong: Urban Councillors Lai Hok-lim and Lee Kwok- leung; and Central and Western District Board chairman Yuen Bun- keung.

Journalists on the plane claimed to have spotted the names of legislator Elizabeth Wong Chien Chilien and Democrats Szeto Wah and Josephine Chan Shu-ying.

Mr Cheng said: "Today marks 365 days before the handover. It also marks the complete shattering of the dream of democracy, 'Hong Kong people ruling Hong Kong' and a high degree of autonomy."

John Tse Wing-ling, another Democratic legislator, lashed out at Chinese pledges in the Basic Law.

"One country, two systems — don't believe it. It's a big lie," he said.

Colleague Tsang Kin-shing broke down in tears as he was greeted at Kai Tak by his young son.

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Other members of the group were Yum Sin-ling, Lo Chiu-fai, Lam Sum-shing, former legislator Fung Chi-wood and unionist Leung Yiu- chung.

Xinhua (the New China News Agency) denied the blacklist claims. It said security staff in Beijing confiscated the group's travel documents and ordered them back to Hong Kong because they infringed immigration laws.

Local Xinhua officials accused the group of putting on a political show. Vice-Director Qin Wenjun said claims of a blacklist were "nonsense". "We informed them not to go and they still insisted on going. They are responsible," he said.

Another Vice-Director, Zhang Junsheng, said they were not allowed into Beijing because of national security reasons. "Don't believe that China's safety will only be affected by people with guns," he said. "They stirred up things and tried to petition Beijing with journalists in tow. How could we allow them to make a forcible entry after they were told many times not to go?"

The coalition met last night and decided to stage a protest at Xinhua's headquarters today.

They will also ask Solicitor General Daniel Fung for help in regaining their travel documents. He believed the detainees could take legal action in mainland courts.

In London, Chief Secretary Anson Chan Fang On-sang was surprised that people travelling on valid PRC-issued documents were not permitted to enter China.

Speaking shortly after a 40-minute meeting with the Prime Minister, John Major, she said Hong Kong had raised the matter with the British embassy in Beijing and would also discuss it with Xinhua.

Hong Kong: Commentary on Hong Kong's Return to Motherland

HK0207063796 Beijing CHINA DAILY in English 1 Jul 96 p 4

[Commentary: "One Year and Counting"]

[PTS Transcribed Text for FBIS] Exactly one year from today, the Chinese Government will resume the exercise of sovereignty over Hong Kong, ending a long and humiliating history for the Chinese nation.

It is of historic significance not only because it removes the last vestige of British colonialism in the region but also because it sheds light on settling international issues left over from history.

We expect a smooth transition in the next 365 days and urge that all positive factors be mobilized to ensure the realization.

In the past 150 years, the Chinese people have never ceased their struggle for the return of their territory seized by the British colonialists in 1841.

With Deng Xiaoping's guiding concept of "one country, two systems" officially proposed in 1982, the Chinese people's efforts have finally come to fruition.

Under this principle, Hong Kong and Macao will enjoy a high degree of autonomy as special administrative regions (SARs) after they return to the motherland in 1997 and 1999 respectively.

The resolution of these two historical issues marks a significant step forward in China's cause of peaceful reunification, a dream that has long been cherished by generations of Chinese.

Hong Kong's return to the motherland under the principle of "one country, two systems" will warrant the 6.3 million Hong Kong people free from British colonial rule forever and they will become masters of their own destiny with freedom and democracy in their real sense.

From July 1, 1997, the Hong Kong SAR will be administered by Hong Kong residents and be granted high autonomy in executive, legislative and independent judiciary powers and the power of final adjudication.

Except for State sovereignty, which will be exercised by the central government, everything else will remain the same after 1997: the legal system, the existing lifestyle, the currency, the economic and financial policies.

Under the principle of "one country, two systems," we are confident that Hong Kong will become increasingly prosperous and stable after 1997.

It is China's consistent policy to enhance Hong Kong's status as an international centre of finance, trade, shipping, tourism and information, maintaining strong ties with other countries, regions and international organizations while the legitimate business interests of Britain and other countries will be protected.

Let us witness together the concept of "one country, two systems" becoming a reality. And we are confident to say that July 1, 1997, will harbinger a new, more prosperous era for Hong Kong.

Hong Kong: Editorial Urges Patten To 'Return to Reality'

HK0207074096 Hong Kong TA KUNG PAO in Chinese 2 Jul 96 p A2

[Editorial: "Chris Patten Would Be Well Advised To Return to Reality"]

[PTS Translated Text for FBIS] The activities to mark the one- year point in the countdown to Hong Kong's

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reversion to China, which are gradually approaching a climax, have been varied, colorful, and extraordinarily animated. They fully show Hong Kong people's feelings of joy at returning to the fold of the motherland very soon.

At this very moment, Chris Patten, the last governor, who has expressed his desire to withdraw honorably and with dignity, should not have said something which is disadvantageous to Hong Kong's stable transition and hurts Hong Kong people's feelings. However, he can never suppress his true feeling. In Radio-Television Hong Kong's "Letter to Hong Kong" program, he has gone so far as to say that the countdown activities are an "attempt to escape reality," that Hong Kong people's "confidence is fragile," and that they should "argue for" and "stand up for" the "democracy" he has "bestowed" upon them.

The countdown activities for Hong Kong's reversion to China started on 5 October 1994, exactly 1,000 days away from 1 July 1997.

Since that day, we have been constantly reminded that we should not forget wiping out the national disgrace of the last 100 years and more or forget our heavy responsibility to reunify the motherland entrusted to us by history; we have been reminded that, with the approach of Hong Kong's reversion, we should race against time and work doubly hard in order to contribute to the formation of the Hong Kong Special Administrative Region [SAR].

It is also since that day that people have been counting the days in their daily lives. After every 100 days or whole year, many organizations or people make a point of launching activities or writing articles in newspapers to publicize the Basic Law or discuss the present situation and tasks. Every countdown activity is like refueling or the rousing of people's enthusiasm and it plays a very good role in enhancing Hong Kong people's sense of responsibility and urgency and in mobilizing Hong Kong people to take an active part in Hong Kong affairs. How can he say that such activities by Hong Kong people are an "attempt to escape reality"?

With the passing of each day, the duration of Britain's colonial rule in Hong Kong and the days in which Patten can order Hong Kong people about will be one day less. Therefore, contrary to Hong Kong people's joyful feelings, Patten does not want to count the days because the more he does so the more uneasy he will become. This actually shows that Patten is unable to face reality.

But time will pass one day after another, 1997 will be here sooner or later, Britain's colonial rule in Hong Kong will come to an end, and all decisions and resolutions made by the Preparatory Committee for the formation of the Hong Kong SAR will be implemented. This is the reality. Whether Patten wills it or not and faces it or not, this reality cannot be changed.

That fact that each countdown activity has become more animated than the last and that the activities over the past few days have been particularly unprecedented in grandeur precisely shows that Hong Kong people have increased their confidence in Hong Kong's future.

According to the latest poll released by the Hong Kong Federation of Youth Groups yesterday, 80 percent of the young people and adolescents polled are full of confidence about future of Hong Kong. In the face of Hong Kong's reversion, they said that they would realize it in different ways, including trying to understand the Basic Law, learning Mandarin, and learning more about China.

By claiming that Hong Kong people's "confidence is fragile," Patten either has cut himself off from reality or has an axe to grind.

We fully believe that the vast numbers of Hong Kong residents will certainly turn the patriotic and love-Hong Kong enthusiasm brought forth in the celebration activities into preparations for the formation of the Hong Kong SAR.

An unswerving principle for the formation of the Hong Kong SAR is "keeping the initiative in our own hands" and "facing and relying on Hong Kong people." The Preparatory Committee has a very clear timetable. On the basis of canvassing the views of various quarters, the Selection Committee sub-group is studying and discussing the methods for the formation of the Selection Committee which will be approved after discussion at the Fourth Session of the Preparatory Committee in August. The Selection Committee will be formed in October and the first chief executive, the SAR team- designate, and the provisional legislature will be elected or formed toward the end of this year. The key to ensuring the smooth operation of the work to form the SAR is to mobilize the active participation of Hong Kong people who offer views and suggestions to the Preparatory Committee according to the regulations of the Basic Law and the decisions of the National People's Congress and its Standing Committee.

As Hong Kong governor, Patten should fulfill the obligations undertaken by the British side in the Sino-British Joint Declaration, honor the commitments it made at the Sino-British foreign ministerial talks and, instead of stirring up contradictions and creating trouble, give the Preparatory Committee full assistance.

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On the occasion when Hong Kong people are celebrating the one- year point in the countdown to Hong Kong's reversion to China, Patten has encouraged some people to "argue" and "stand up," saying that he would not prohibit people from carrying out petition or protest activities at the political power handover ceremony in 1997. Isn't this overt and covert instigation for some people to create disturbances and oppose the formation of the SAR?

Hong Kong people are very clear about what Patten is "arguing for" and standing up for." It is nothing but "standing up for" the Legislative Council he has dished up and "arguing for" its transition beyond 1997. According to his argument, to "stand up for" freedom in Hong Kong, it is necessary to "stand up for" democracy; to "stand up for" democracy, it is necessary to "stand up for" the Legislative Council" and "destroy" the Provisional Legislature. As soon as he made the call, the demonstrations for a "democratic return" and against the Provisional Legislature were organized. Turning a deaf ear to the Public Security Ministry's warning, a handful of people from the United Front Against the Provincial Legislature attempted to "run the blockade" and made it to Beijing to willfully make trouble. Yesterday, the British Hong Kong authorities issued a statement, expressing their "surprise" and "concern" over the action of Beijing's public security department to prevent, in accordance with the law, people from the United Front crossing the border. What does this show anyway?

It is clear that the British side has sabotaged the "through- train" arrangements, which has forced China to set up a provisional legislature, but Patten said the failure of the Legislative Council to ride a "through train" is caused by the Chinese side. This is his old trick of putting the blame on his victim. Whatever method Patten may adopt, be it overt or covert, old or new, the provisional legislature will be formed toward the end of this year and it is inevitable that the British Hong Kong Legislative Council will terminate on 30 June 1997.

Patten would be well advised to return to reality.

Hong Kong: Bank Official Says Hong Kong To Remain Financial Center

HK0207064296 Beijing CHINA DAILY in English 2 Jul 96 p 1

[By Ren Kan: "HK To Get Financial Freedom After 1997"]

[FTS Transcribed Text for FBIS] A senior central bank official vowed yesterday that the mainland will stick to the Basic Law of Hong Kong in developing its financial relationship with the region after 1997, when China resumes its exercise of sovereignty over Hong Kong.

Chen Yuan, deputy governor of the People's Bank of China, said that the bank will not set up affiliates in Hong Kong or interfere with the forming or implementation of the region's financial policy after 1997.

He added that renminbi will not replace Hong Kong dollars after 1997 and mainland-funded financial institutions will not enjoy privileged treatment in Hong Kong.

Chen said that the central government will not use the Hong Kong foreign exchange reserves for any reason.

Chen made these remarks at a meeting of officials from the policy-oriented banks, State-owned commercial banks, the People's Insurance Company of China and other commercial banks.

Chen urged financial officials to study well the Basic Law and better understand Hong Kong's financial situation.

He said mainland financial officials should take the continuation of Hong Kong's prosperity as their responsibility.

"We are full of confidence that Hong Kong's status as an international financial centre will be maintained and enhanced after 1997," said Chen.

He said that the financial cooperation between the mainland and Hong Kong will be enhanced after 1997.

By the end of May, Hong Kong banks had set up 25 branches and 49 representative offices in the mainland.

Macao

Macao: Portugal, China Agree 'Pact of Silence' on Macao Pensions

BR2806141696 Lisbon DIARIO DE NOTICIAS in Portuguese 28 Jun 96

[Unattributed report: "Pact of Silence in Macao" — received via Internet]

[FBIS Translated Text] The delegations from Portugal and China in the Joint Liaison Group (GLC), which is overseeing Macao's transition to Chinese administration, have agreed on a pact of silence on issues on which agreement has not been reached.

The reference to this "pact of silence" was made to justify the lack of response to a question put by journalists on Portugal's possible liability for paying the pensions of Macao civil servants who retire before 1999, but who have opted for the local pension fund.

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